DOCUMENT RESUME

ED 078 301 AC 014 504

AUTHOR	Schaars, Marvin A.
TITLE	Cooperatives, Principles and Practices.
INSTITUTION	Wisconsin Univ., Madison, Univ. Extension.
PUB DATE	71
NOTE	108p.
EDRS PRICE	MF-$0.65 HC-$6.58
DESCRIPTORS	Classification; *Cooperatives; Financial Support; History; *Information Sources; Laws; Organization; Public Relations; *Teaching Guides

ABSTRACT

A teaching aid and information source on activities, principles, and practices of cooperatives is presented. The following topics are included: (1) Basic Interests of People, (2) Legal Organization of Business in the United States, (3) What Is a Cooperative? (4) Procedure for Organizing Cooperatives, (5) How Cooperatives Are Run and Managed, (6) Financing of Cooperatives, (7) Keeping the Members and Public Informed, (8) Kinds of Cooperatives, (9) Legal Basis, (10) Historical Development, (11) History of Cooperatives in the United States, (12) Extent of Cooperative Business, (13) Benefits from Cooperatives, and (14) Limitations of Marketing, Purchasing, and Service Cooperatives. (CK)

COOPERATIVES, PRINCIPLES AND PRACTICES

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COOPERATIVE EXTENSION PROGRAMS
UWEX University of Wisconsin Extension
University of Wisconsin Madison

This is a second revision of this publication and supersedes Circular 420 originally prepared in 1936 by the following members of the Department of Agricultural Economics: Chris L. Christensen, Asher Hobson, Henry Bakken, R. K. Froker, and Marvin A. Schaars. The first revision was made in 1952 by Asher Hobson with special acknowledgments to Professor Charles Bunn of the Law School, to Marvin A. Schaars and Karl Shoemaker of the Agricultural Economics Department, and to Leslie Drayton, a graduate research assistant. This second major revision in 1970-71 was made by Marvin A. Schaars with the exception of the section on "Keeping the Members and Public Informed" which was contributed by Francis Groves of the Agricultural Economics staff.

COOPERATIVES,

PRINCIPLES AND PRACTICES

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FOREWORD

According to Wisconsin Statutes 37.29 and 118.08(8) passed in the mid-1930's, cooperative marketing, consumers' cooperatives, and conservation of natural resources shall be taught in the University, county teachers' colleges, high schools, and schools of vocational, technical, and adult education. And Wisconsin Statute 118.19(6) requires adequate instruction in cooperative marketing and consumers' cooperation for a certificate to teach courses in economics, social studies, or agriculture in the state. The statute also directs the State Superintendent of Public Instruction and the Dean of the College of Agriculture to cooperate in preparing outlines for teaching cooperation in Wisconsin's public schools.

To meet these requirements, the University has had courses in cooperation and conservation of natural resources for many years. It has also met the mandate to prepare teaching materials for the public schools.

This publication, the second revised edition of the original appearing in 1936, is not only designed as a teaching aid but also as a source of information for anyone interested in the principles and practices of cooperatives. Major emphasis is placed upon *farmer* cooperative activities since most of the associations in this state are farmer owned and controlled. The volume of urban consumer cooperatives, while important, is a small part of the total business done cooperatively.

Major emphasis is also placed on cooperative *marketing* practices since the bulk of farmer cooperation in this state and in the nation is in the marketing of farm products. In 1968-69, four-fifths of the total dollar volume of farmer cooperative business was in marketing, one-fifth in cooperative purchasing - both in Wisconsin and nationwide. Except for the large increase in urban credit unions, it appears that most cooperative activity will continue to be among farmers for some time despite the shrinking number of farms and rural population.

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COOPERATIVES, PRINCIPLES AND PRACTICES

Cooperatives are composed of people. People in all walks of life--people everywhere--have grouped together to do collectively what very likely could not be done at all individually, or not as well. Such group action has, no doubt, existed since the beginning of time. Self-help through mutual aid has enabled man to progress from an uncivilized to a highly civilized state. Despite the great advances that have been made, he still finds much benefit from working with others.

Since the word "cooperative" or "cooperation" is properly applied to many group activities, note that in this publication it refers to those collective activities of an economic and social character that center largely around the business of selling, buying, making a living, and servicing the needs of its members. Because most cooperatives today meet rural needs, the main emphasis will be on farmer cooperative associations.

BASIC INTERESTS OF PEOPLE

Every person has wants he wishes to satisfy. These may be such basic creature wants as the desire for air, water, food, clothing, and protection from the elements as well as the psychological ones calling for love, companionship, sympathy, respect, honor--to mention a few.

Some may say that the greatest want or desire of all is for money. Yet money in itself is only valuable to the extent that it can purchase goods and services and, in some circles, add to the prestige of the person having it. By and large the great majority of people strive to elevate their plane of living--to enrich life through comfortable living, education of their children, residing in a respectable neighborhood, having real friends, and in other ways getting personal and family satisfactions out of life.

Although every person wants, in general, to improve his manner of living, his needs and interests will vary. In particular, those who belong to cooperatives have different economic reasons for belonging depending on whether they are producers, workers or laborers, consumers, or businessmen.

PRODUCERS' INTERESTS

Agricultural producers are chiefly interested in efficiently marketing their products so that the money received will cover all the production costs plus a profit on the investment. Maximizing net returns from farming is the goal. This calls for more than effective marketing - it also calls for keeping production costs as low as possible. Production costs include seed, fertilizer, chemicals, machines, labor, taxes, interest payments, and many service costs (tractor repairs, veterinary fees, etc.). The money received (farm prices) minus production costs equals the net farm income from farm operations. Cooperatives can both market products effectively and sell items needed for production in order to increase net farm income.

WORKERS' OR LABORERS' INTERESTS

Workers or laborers are principally interested in wages, fringe benefits, general working conditions, secure employment, and promotions. To this end, workers have organized bargaining associations (labor unions) to bargain collectively with the management of individual firms or with management representatives of a whole industry.

In some countries, more so than in the United States, workers have set up cooperatively owned factories in which the workers have full management responsibility and stand to gain or lose from their cooperative undertaking. In Canada and India there are cooperatively owned farms

as there are in Israel. On the West Coast in this country, workers owned plywood factories cooperatively; and in the Appalachian coal fields some mines are run cooperatively by the miners. Note that these places of employment are owned and run by the workers - these should not be confused with factories owned by cooperatives where, of course, people work on a strictly employer-employee basis.

CONSUMERS' INTERESTS

Consumers are primarily interested in real income, that is, in the best goods and services for the dollars spent. They are interested in things that are used in day to day living. Hence, consumers are spenders whereas producers are earners. As spenders, consumers naturally wish to get as much as possible for their dollars in quantity and quality. Consequently, consumers inform themselves, watch ads, shop around, and also run businesses cooperatively to stretch the family's income.

BUSINESSMEN'S INTERESTS

Businessmen or middlemen make their living from buying resaleable goods at one price and selling them at a sufficiently higher price to cover all costs and provide a profit (except for agent middlemen who receive a fee for bringing buyer and seller together). Their interest in business is chiefly to maximize profits. This does not imply neglect of service to the customer nor indifference toward consumer wants and interests. To maximize profits, unit costs of operations must be kept at a minimum. To this end, businessmen have organized cooperative buying associations, have become members of voluntary chain store organizations, and through their trade associations have generally attempted to improve their business status.

INDIVIDUAL EFFORT

Whatever, the interest, the big question is-- how can this be best accomplished? Unquestionably, much can be done by one's self. Some farmers are expert salesmen and know when, where, and how to sell to good advantage. Some consumers are very adept at smart buying. And some individual business firms have repeatedly demonstrated their shrewdness in timing purchases and sales. Too often, however, these cases are the exception rather than the rule. The sharp decline in the number of unaffiliated retail grocery stores is mute testimony to the difficulties of survival in a highly competitive economy. Many farmers are more efficient and knowledgeable as producers than as marketers of products or skillful buyers of farm supplies. Individualism has its merits but also many handicaps.

COLLECTIVE EFFORT ON A SELF-HELP BASIS

Self-help through mutual assistance is another way to achieve the interests previously named. Cooperating with others has often proven a satisfactory way to help one's self while at the same time assisting others in helping themselves. Such group action does not eliminate self-interest which is a driving force in private enterprise. In fact, being altruistic and working with others may be one of the best ways to put forward one's self-interest.

GOVERNMENTAL EFFORT

In the United States relatively little commerce and industry is carried on by county, municipal, state or federal governments. However, some things can be done most effectively by the government. This is especially true if exceptionally large risks are involved in an enterprise so that no private group would invest its capital nor would any banker loan money for it. Or, the project may require so much capital (as the building of a huge dam) that only the government could arrange for its construction. Sometimes a central government may wish to monopolize the production and marketing of a product to earn revenue for the government (tobacco, for instance). In less developed nations, governments may engage in numerous business enterprises which in more developed countries are operated either privately or cooperatively.

A COMBINATION OF EFFORTS

It is not uncommon for the government to collaborate with business firms to achieve goals which firms acting independently might not accomplish otherwise. Such government assistance may be quite *indirect* such as providing market news, market statistics, mortgage guarantees, tariff protection, establishing mandatory grades, curbing monopolies, passing enabling legislation for cooperatives, and fostering competition. Or it may be *direct* through such action as granting of loans (Rural Electrification Association loans) permitting use of quality designations on products (United States Department of Agriculture AA seal

on butter), or federal inspection as to the purity of products (meats stamped "U. S. Inspected"). Such collaboration is carried on largely in the interests of the citizens as a whole rather than for the benefit of particular firms or the people who do business with them.

COOPERATIVES ARE PRIMARILY MADE UP OF PEOPLE. ALTHOUGH CAPITAL, EMPLOYEES, VOLUME OF BUSINESS, AND GOOD BUSINESS PRACTICES ARE ALL VERY IMPORTANT FOR SUCCESSFUL OPERATIONS, THE MOST IMPORTANT ELEMENT IN THE ASSOCIATION ARE THE PERSONS WHO MAKE UP THE MEMBERSHIP.

LEGAL ORGANIZATION OF BUSINESS IN THE UNITED STATES

The types of business enterprises within a country may be divided into two major categories, governmental and private or nongovernmental. In Russia and other communist countries business is largely owned and run by the governments. In the United States, few businesses are owned or operated by government - and those that are, are done so to enhance public welfare. More specifically, the purposes are:

1. To control a business such as the liquor business.
2. To obtain revenue for the government as with tobacco monopolies.
3. To operate what is best done as a monopoly, as in the case of basic services such as power, light, water, transportation, and utilities.
4. To carry out government policies such as buying up farm products to support farm prices.
5. To provide a widely needed service, even if a loss in operations is experienced, as with the U.S. postal service.

Since some persons mistakenly believe that cooperatives are some sort of quasi-governmental institutions, it may be well to point out a few other characteristics of governmentally-run businesses.

GOVERNMENT BUSINESS

Unlike private business, a governmentally-run business does not need to earn a profit because the government has the power to tax to make up any deficit. It can also print money, if necessary, to pay its bills; and it can also exclude competition by edict to keep the market for itself. No private business, cooperative or otherwise, has these powers. Therefore, it should be clear that cooperative businesses are unlike governmentally-operated ones. Internal controls, management, financing, and operational procedures also are greatly different for these two kinds of businesses as will be seen.

PRIVATE BUSINESSES

All nongovernment operated business is, therefore, private business including that of cooperatives. Through common usage, the term *private* business often refers to noncooperative, nongovernmental business and is considered the opposite of cooperative business. However, it should be apparent that cooperatives are also private businesses - but with cooperative ownership.

From the standpoint of legal organization, there are three basic types of private business organizations in our free enterprise system: individually owned businesses; partnerships of two or more persons; and corporations. Corporations may be either profit-type (standard investor-oriented) or nonprofit-type (patron-oriented or cooperative). Since these two differ in many respects, it may be just as well to classify the forms of business organizations as:

1. Individually-owned businesses or sole proprietorships.
2. Partnerships.
3. Standard or regular corporations.
4. Cooperatives.

Table 1 summarizes the differences in methods of operation of these four types of businesses.

Table 1. Methods of Doing Business Under Private Enterprise [1]

Features compr	Types of Business			
	Individual	Partnership	Corporation: Investor-Oriented	Corporation: Cooperative
1. Who uses the services?	Nonowner customers	Generally nonowner customers	Generally nonowner customers	Chiefly the owner patrons
2. Who owns the business?	The individual	The partners	The stockholders	The member-patrons
3. Who votes?	None necessary	The partners	Common stockholders	The member-patrons[2]
4. How is voting done?	None necessary	Usually by partners' share in capital	By shares of common stock	Usually one-member one-vote
5. Who determines policies?	The individual	The partners	Common stockholders and directors	The member-patrons and directors
6. Are returns on ownership capital limited?	No	No	No	Yes – 8% or less (usually less, if any) [2]
7. Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stockholders in proportion to stock held	The patrons on a patronage basis [2]

[1] "Cooperatives in Agribusiness," Educational Circular 33, Farmer Coop. Service, U.S. D.A., Washington D. C., 1968.

[2] Basic cooperative principles.

Individually-owned

One person owns and controls the operations. He assumes the risk of ownership, keeps all profits, and bears any losses. The owner's decisions are final. He is personally responsible for the investment in the business, the actions of his firm, and for any growth or expansion of his company.

There are **advantages** to this method of doing business. The owner is his own boss - he does not take orders from anyone. Any net profits belong to him and need not be shared with anyone. (This does not preclude a profit-sharing plan with employees.) Individually-owned businesses are easy to set up - no incorporation papers need to be drawn, no incorporation fee need be paid, no bylaws need to be adopted. Personal talents and initiative are personally rewarded and, thus, the incentive to achieve is compensated.

Individually-owned businesses also have **handicaps.** The available capital is limited to what the owner has or can borrow. As a result, many of these firms are small. Business losses are borne by the owner and not shared with others. Business debts are the unlimited liability of the owner. Decision making rests in one individual, so it is limited to the business ability of the owner. Also, unless otherwise provided for, the business ceases with the death of the owner.

Partnership

When two or more persons mutually agree to own and operate a business jointly, without the formality of incorporating, then a partnership is formed. Each person in the combine is a partner but not necessarily on an equal basis. Together they pool their resources, borrow on the strength of all the partners, share in the decision-making process and collectively bear the debts. They divide the net earnings of the business as well as its losses according to their contractual agreement. The additional capital and skills, training and experience that the several partners can provide strengthens the organization.

There are some **disadvantages** too. Each partner is personally liable for any and all debts of the business and commitments made by any partner (so-called unlimited liability. There are also "limited partnerships" in which partners' liability is limited.) The partnership ends with the death or withdrawal of any partner. Also, the partners need a high degree of "give and take" if the arrangement is to last.

Corporation

A corporation is a legal entity created by law. Its owners hold shares of common voting stock. (In a nonstock corporation, shares of common stock are not issued. Instead owners generally pay a membership fee.) The powers of the corporation are derived from the corporation laws under which the organization took place. With

few exceptions, business firms are incorporated or chartered under state rather than federal laws and are generally under the laws of the state where the principal or home office of the company is located.

The Advantages to Incorporating a Business Are:

- Stockholders have limited legal liability. In the event of losses or bankruptcy each stockholder can only lose the amount represented by the stocks he owns (assuming he is not a creditor of the corporation).
- The corporation can go on indefinitely unless it is purposefully dissolved or was incorporated for a specific number of years - the death of a stockholder or the sale of his stock does not terminate the corporation.
- Investment in the corporation through the purchase of shares of stock can be made easy for large and small investors since share values can be kept low enough to attract many investors - savings of many people can be used by business undertakings as a result.
- Transfer of ownership rights through the sale of stock is accomplished relatively easily.
- Since the corporation is separate and distinct from any of its stockholders (except in the case of a corporation held tightly by one or a few persons), its ability to borrow money is generally greater than that of any of its individual owners - hence, greater business activity may be undertaken.
- A corporation operating profitably can generate capital for business growth and expansion. Such capital can be more easily acquired than through additional sales of shares of stock.

Major Disadvantages Are:

- Each stockholder has limited, and oftentimes very little, if any, control of the business. Proxy voting (where one person is authorized by other stockholders to vote their stockholdings) and cumulative voting (where a holder does not vote on certain issues but is permitted to cast correspondingly more votes on another issue) may give more control to some stockholders than to others.
- Many corporations are impersonal, "cold," and "soulless." Directors and stockholders frequently condone actions in the name of a corporation which would never be permitted if identified with any particular person.
- There are costs involved in forming corporations, incorporating them, keeping stockholders informed, distributing dividends, paying corporate taxes, reorganizing their structure and dissolving them.
- Profits of a corporation are subject to double income taxation - first, at the corporation level and, again, at the stockholder or dividend recipient level (Up to $100 dividends per person are deductible, however).

The above comments pertain to corporations generally. From a legal standpoint, there are two kinds of corporations - the investor-oriented or standard corporation; and the patron-oriented or cooperative corporation. (Since very few cooperatives are not incorporated, the term cooperative refers to an incorporated organization unless otherwise specified. Cooperatives, therefore, are special types of corporations.) These two types of corporations have both similarities and differences. However, before pointing these out, the general nature and description of cooperatives should be examined.

WHAT IS A COOPERATIVE?

A cooperative is a business voluntarily owned and controlled by its member patrons, and operated for them and by them on a nonprofit or cost basis. It is owned by the people who use it. It is organized and incorporated to engage in economic activities with certain ideals of democracy, social consciousness, and human relations included. As Professor Paul Casselman states, it is "an economic system with a social content." A cooperative provides services and benefits for its members in proportion to the use they make of their organization rather than earning profits for the shareholders as investors.

A cooperative is part of our free enterprise, competitive, capitalistic system rather than a welfare agency or a charitable and benevolent society. It depends upon income earned from rendering services to meet its expenses rather than upon donations, government handouts, or support from philanthropic organizations. Service, paid for by its member patrons, is its primary orientation.

The primary goal of a cooperative is to meet members' needs in an economical, efficient manner, whereas the goal in the investor-oriented corporation, the partnership, and the sole proprietorship is to maximize profits for the owners of the business.

DISTINGUISHING FEATURES

Definitions do not describe all aspects of a cooperative. Therefore, it is well to look at those features which distinguish a cooperative from other business enterprises and which will help answer the question, "Is an organization a cooperative or not?" Criteria suggested after a study by the Farmer Cooperative Service (FCS) include:

1. Does the organization provide *economic benefits* to member patrons? (This does not preclude educational, social, or other benefits.)
2. Is the company essentially a nonprofit enterprise? That is, is it to *benefit users* of its services rather than to make profits for the organization or for the members as investors?
3. Is the organization *controlled by the people who use it*? Generally every member is given a single vote irrespective of the volume of business he transacts with the firm or how much stock he owns. Sometimes control is based on the volume of business he conducts with the company (patronage-voting).
4. Is the organization centered around the *mutual interests* of its members, that is, around a common bond of interest?

If the answer to each of these questions is "yes", then the organization can be considered a true cooperative. (For a discussion of these criteria see Savage, Job K. and Volkin, David, "Cooperative Criteria," Service Report 71, Farmer Cooperative Service, U.S. Department of Agriculture, Washington D.C., February 1965.) The FCS added three other desirable policies for cooperatives without, however, limiting their application to cooperatives. They are:

1. Risks, costs, and benefits are shared *equitably* among patrons (note that the word is "equitably" and not "equally").
2. Members have an *obligation to patronize* their cooperative.
3. Business is done *primarily*, not necessarily exclusively, *with members.*

FUNDAMENTAL CONCEPTS

Basic to any cooperative organization is the **spirit of voluntaryism** and the **element of proportionality.** These two concepts are foundation blocks upon which the cooperative structure rests.

The very idea of cooperating presupposes voluntary action of those involved. Coercion is the antithesis of cooperation. Persons compelled to act contrary to their wishes are not truly cooperating but are simply going through the motions. The form should not be mistaken for the substance. True cooperation with others is a feeling that

comes from the heart - compulsion is something imposed on the individual from the outside (by law or edict). (Contrasted with this purely voluntary cooperation, there are cases of so-called compulsory cooperation where those in the minority are forced by law to abide by the decisions of the majority - as in marketing agreement and order programs - or of a central authority. Such action ought to be called "compulsory collaboration" since it is not voluntary.) As one person remarked, "men may collaborate with one another under compulsion but they cooperate only in freedom." In true cooperatives, persons are free to join if they wish and leave when they want to. This is the spirit of voluntaryism.

When people cooperate they share with one another the risks, responsibilities, duties, rights, and benefits of their collective effort. No one person or segment bears the total responsibility or obtains all the benefits. All are involved in giving and taking, furnishing and sharing, risking and benefiting. On what basis? The most practical basis is according to the amount of use made of the company (on a dollar volume of business basis). This proportional basis appears just, easily comprehended, and entirely feasible from an operational standpoint. It implies that members should finance their cooperative, meet their operating costs, and share in the savings (and losses) on this basis. To do otherwise, as one writer has expressed it, "distorts the individuality of the participants, creates maladjustments, and undermines the aggregate nature of the cooperative."

BASIC PRINCIPLES

As indicated, cooperatives have features and fundamental concepts which distinguish them from ordinary corporations. In addition, the following distinctive principles identify business-type cooperatives:

1. Control by member users - also called democratic control.
2. Operations on a cost-of-doing business basis - that is, nonprofit operations.
3. Limited returns or dividends upon ownership capital.

Control by Member Users

Each member is generally limited to one vote on each issue that is voted upon, regardless of how much stock he owns or how much business he transacts with the cooperative. Wisconsin cooperative law specifically states that "each member entitled to vote shall have one vote" and that "voting by proxy shall not be allowed in any cooperative."

Voting on a one-man-one-vote basis is not in accordance with the concept of proportionality. To rectify this, cooperative law in a number of states permits the basic one-member-one-vote to be supplemented by permitting additional votes based on the volume of business transacted the previous year by the member with his cooperative. Generally, the maximum number of votes any member may cast is specified to prevent control

COOPERATION CALLS FOR GROUP ACTION WHETHER IT BE OF MEMBERS SERVING ON COMMITTEES, OF DIRECTORS WRESTLING WITH A MAJOR POLICY MATTER, OR OF THE MANAGER WITH HIS DEPARTMENT HEADS DECIDING ON A PLAN OF BUSINESS CONDUCT.

by a minority of members. Thus, a grain cooperative might permit one vote to be cast for each 1000 bushels of grain marketed the year before by the producer member but limit the votes to 10 for any single member. Democratic control is maintained by relating the power to vote to the use made of the organization. It also identifies voting with the interest members have in their cooperative as shown by their patronage.

Nonprofit Operations

The second principle is achieved by charging patrons only the actual cost of performing services. If there are overcharges, these are returned to the patrons in proportion to the business they have transacted with the cooperative. The cooperative is not operated to profit at the expense of its member patrons. Any excess income over expenses (called "profit" in a regular corporation and "net savings," "net income," or "net earnings," in a cooperative) is returned as patronage refunds to the member patrons pursuant to a mandatory contract to do so. Such mandatory contract (usually included in the bylaws or by resolution) must be in effect before the year's operations begin. It clearly establishes that any excess income over expenses belongs to the patrons and is not the property of the corporation.

Accounting-wise such excess income over expenses seems to be a profit, but in view of the existence of the mandatory obligation to refund it to the patrons, the return of the over-charges actually reduces the gross income and places the cooperative on a cost-of-doing business basis. Operating on a nonprofit basis simply means that the cooperative is not run to make profits for the investors by maximizing dividends on shares of stock but rather to benefit member patrons. The refund of over-charges may be in cash, partly in cash and the rest deferred, or entirely deferred. Since passage of the 1962 federal Tax Law, most cooperatives refund at least 20 percent in cash and the rest as noncash refunds (see section on taxation).

Limited Dividends

The third principle is intended to keep the cooperative operating for the benefit of the patrons and not specifically for the stockholders. (note that the return on the investment is called a "dividend" and not "interest," although the relatively fixed annual return appears more like an interest payment than a variable dividend. Interest payments are operating expenses; dividends are not. (See the Glossary for the definition of these two terms.) The money-capital-used for production should be paid for its use as are labor, land, and management. The nominal payment for use of such capital is around 5 percent or approximately equal to the return on government bonds. Such restriction on dividends discourages control of a cooperative by persons more interested in stock dividends than on savings or refunds to patrons. The limitation likewise tends to keep the value of the shares of stock at face value (par). Dividends, of course, are paid out of net earnings and if there are none, no payments can be made without impairing the capital of the cooperative. Some cooperatives pay no dividends on equity capital (ownership capital from members).

State and federal laws need also to be examined to learn the maximum dividend permitted. For example, to come under the protection of the Capper-Volstead Act, a cooperative must *either* limit dividends on stock or membership capital to 8 percent *or* restrict voting rights to one-member-one-vote. Also, to qualify for exemption from federal income taxes, among other restrictions, dividends must not exceed 8 percent per annum or the legal rate of interest in the state of incorporation, whichever is greater, on the par value of the stock.

SUPPLEMENTARY PRINCIPLES

In 1966 the International Cooperative Alliance (ICA) decided that the following principles, in addition to the three mentioned above, should be considered "essential to genuine and effective cooperative practice."

1. Membership should be voluntary and available without artificial restriction or any social, racial, political, or religious discrimination to all persons who can make use of its services and are willing to accept the responsibilities of membership ("open membership," and the principle of "political, racial, and religious neutrality").

2. Surplus or savings, if any, belong to the members and should be distributed so no member gains at the expense of others (the "patronage refund" principle).

3. All cooperatives should educate their members, officers, employees, and the general public in the principles and techniques of cooperation (the "promotion of education" principle).

4. All cooperative organizations, to best serve their members and their communities should

actively cooperate in every practical way with other cooperatives at local, national, and international levels.

Of course, not all persons agree or accept the ICA's principles. The three basic principles which distinguish cooperatives are commonly accepted, but not those that define a cooperative's methods of operation. The three hard core principles are widely considered the real, invariable ones. The others are highly recommended or desirable yet vary with the times and the environment. To illustrate these variations, many marketing associations do not follow an open membership policy but rather, a selective and restrictive policy (housing cooperatives and credit unions generally follow a restrictive policy); irrigation cooperatives generally vote on the basis of acres irrigated rather than on a one-man-one-vote basis; patronage voting is in line with the principle of proportionality; and thousands of successful cooperatives never set aside funds for education.

In considering principles one should keep in mind whether he is defining a type of business organization or some type of social movement, cult, or humanitarian agency. In this publication, attention is given primarily to the former.

LEGAL IDENTIFICATION

The first cooperative law was passed in England in 1852. It legalized business organizations operated by and for its member patrons. Since that time many countries, states, and provinces have enacted legislation permitting cooperative institutions to function as business entities.

Not all of these laws spell out the character of cooperatives - some are quite general, others more specific. Wisconsin has three laws under which cooperatives incorporate - Chapter 185 of the statutes, the Wisconsin Cooperative Law, under which all but the credit union cooperatives are incorporated; Chapter 186, the "Cooperative Credit Associations" law under which the credit unions are organized; and Chapter 202 under which town mutual insurance companies are established. The principal provisions of the Cooperative Law are summarized in the section, "Legal Basis for Cooperatives." There are 99 sections and many subsections in the law indicating its inclusive character. Many other laws, especially the federal acts, also relate to cooperatives and are discussed later.

SIMILARITIES WITH NONCOOPERATIVE BUSINESSES

In many respects, cooperatives are not unlike the noncooperative businesses with which they must compete. This has led some persons to conclude that "a cooperative is just another place to trade or do business." This is incorrect, as will be shown.

Among the similarities, however, are the following. Both types of businesses enter the labor, capital, and management markets and must pay the same wages, same interest rates, and comparable compensation for management. Many operational practices are the same, such as packaging, storing, transporting, processing, granting of credit, advertising, and pricing. Both types aim to improve their efficiency and operate economically. Both may be located in comparable business sections of the city or town. The same general economic factors - employment and unemployment, tightening or loosening of credit, inflation and deflation, taxes, and changes in consumption patterns - affect both.

To be sure, the viewer cannot tell whether he is looking at a cooperative or noncooperative just by looking at the outside of the store, the warehouse, or the elevator. He must look behind this facade to determine which is which.

DIFFERENCES BETWEEN COOPERATIVE AND NONCOOPERATIVE BUSINESSES

The differences are primarily in the relationship between the owners and their organization and in the way profits and net savings are distributed. In this comparison, it is assumed that the contrasting institutions are corporations (see Table 2). Sole proprietorships and partnerships also differ from cooperatives in many similar ways.

These differences clearly identify the cooperative as a different type of business organization from noncooperatives. Despite these differences, cooperatives are as much a part of the competitive, free enterprise, capitalistic system as noncooperative, profit-oriented companies are.

A major difference between the two is that cooperatives attempt to correct imperfections in the system and to make it function more effectively for producers and consumers whereas the other

institutions are less concerned about eradicating inequities, faulty functioning, and other shortcomings than in profits earned. Since cooperatives are not found everywhere to exert pressure for correcting abuses and antisocial practices, antitrust laws, minimum mark-up laws and other regulatory legislation have been enacted at the state and federal level.

Table 2. Differences Between Cooperatives and Noncooperative Corporations.

Differences	Standard Corporation	Cooperatives
Purpose	To earn profits for investors, increase value of shares, and provide employment for owners of small corporations	To maximize net and real income of member users, and provide goods and/or services at cost to member users.
	To serve the public generally	To serve its members primarily
Organization	Incorporated under state general corporation law no federal charter	Organized under state cooperative law, some such as federal credit unions, under federal charter also
	Except for closely held corporations, anyone may own stock.	Organized around mutual interests of its member users.
	Organized and owned by investors	Organized and owned by member users
	Stock of large corporations is sold on stock exchanges or "over the counter"	No public sale of common voting stock — none listed on stock exchanges.
Control	By investors, the stockholders	By member patrons.
	Policies determined by stockholders and directors. Voting on basis of stock ownership according to the number of shares held	Policies made by member users and directors. Voting in local associations usually on a one-man-one-vote basis, or patronage basis. In federations, locals vote either on number of members represented or on volume of business done with the central organization.
	Proxy voting permitted. Frequently control is exercised by "inside cliques".	Generally, no proxy voting. Seldom that internal cliques can get control
Sources of Capital	From investing public.	From member users primarily
	From successful business operations with all or part of the profits reinvested.	From net earnings on successful operations with reinvestment of part or all of the savings.
Distribution of Net Margins	To stockholders in proportion to number of shares of stock held.	To patrons on a patronage basis after modest dividends on stock have been paid, reserves and, in some cases, an educational fund and bonuses to employees are set aside.
Stock Dividends	No limit — depends on amount of profits and distribution policy.	Limited to a nominal amount — generally does not exceed 8 percent.
Operating Practices	Use conventional methods of financing — sale of stock, issuance of bonds, bank loans, and reinvestment of part or all of the profits	Use revolving capital plan of financing based on the amount of business transacted with patrons in addition to conventional financing procedures
	Usually purchase products on a cash basis.	Usually pool sales receipts and pay average prices by grade for products received
	Business done with public generally and not restricted as to clientele except in exceptional cases.	Business done primarily and in many marketing associations using marketing contracts exclusively — with members.
	Primarily interested in operational efficiency to cut costs — less interested in pricing efficiency.	Not only interested in operational efficiency but in pricing efficiency as well so that differential pricing by grades may reveal to producers ultimate consumer preferences, tastes, and purchases.
	Charge competitive prices or what "the traffic will bear".	Charge either competitive or "break-even" prices in purchasing associations.
Initial Transaction	The purchase or sale is a complete transaction.	The purchase or sale is, in a sense, a conditional transaction subject to a refund or additional payment at the end of the accounting period, if net earnings or savings are made.
Tax Treatment	Subject to many kinds of taxes including state and federal corporate income taxes.	Also subject to many different kinds of taxes. However, cooperatives organized under Chapter 185 do not have to pay a state corporate income tax and, if about 10 restrictions are met, can also be exempt from paying federal corporate income taxes. Net earnings are taxable to farmer recipients.
	Privately owned electric utilities are subject to property taxes on real estate.	Rural electric cooperative in Wisconsin are taxed on gross income rather than on assessed property values.

PROCEDURE FOR ORGANIZING COOPERATIVES

Every care should be taken to start a cooperative under favorable conditions. To be successful, the cooperative, the same as any other business, must meet a need, be soundly financed, and capably managed. It is most important to know in advance whether enough people are interested in dealing with the organization to insure a volume of business large enough for efficient and economical operation. Sound and feasible financing plans must be set up before actual organization, and potential members must furnish substantial evidence that they are willing to contribute their share of the needed capital. Steps should also be taken to secure capable management before the association starts business.

To launch a cooperative, it is necessary that four major jobs be done:

- Determine the need for a cooperative and its potential for success.
- Decide on the form and plan of organization.
- Incorporate and complete the organization into a permanent going concern.
- Obtain members, capital, management, and business volume.

PRELIMINARY MEETING

The idea of setting up a cooperative generally originates with one or a few persons. They discuss the plan with friends and neighbors. If the suggestion is generally accepted, one or more meetings should be called to place the proposals before others in the area. These preliminary discussions are highly important. They provide an opportunity, before formal organization is undertaken, for prospective members to weigh probable advantages against estimated costs. It gives those interested a chance to concentrate on possible problems and operating policies of such an association. The discussions often lead to modifications of the original plans.

If, as a result of these open discussions, there is widespread support and approval of the general idea, the next step is not actual organization, as sometimes happens. Instead, a survey committee should make a more careful study of the conditions under which the cooperative is to operate.

WORK OF THE SURVEY COMMITTEE

The general meetings may have presented facts and figures which had a bearing upon whether or not to organize, but usually much needed information is lacking at such meetings. A survey committee needs to secure pertinent facts that furnish more definite answers to some of the questions raised - questions which have an important bearing upon the success or failure of the proposed undertaking.

The survey committee may be aided by technical advice from the Extension staff of the University, the State Department of Agriculture, and from those connected with similar cooperatives in adjoining regions.

A general survey for a proposed farm marketing association should try to answer the following questions.

Is There a Need for a Cooperative?

The first and basic consideration is to decide whether there is a real need for the proposed association. How is the product now being handled? In what ways can a cooperative improve upon the present situation? If there is no substantial need, there is little to gain, and harm might result in organizing another marketing outlet.

What is the Potential Volume of Business?

Not only must the cooperative be needed, but it must have enough business to meet its operating expenses and at the same time leave some margin of savings. The committee must first estimate the potential number of members and the volume of business this membership may provide.

In starting a new cooperative there is often a tendency to overestimate the volume of business that may actually materialize. Be sure that the

amount of business upon which the cooperative can depend will meet or exceed its minimum requirements. The minimum volume depends upon the area which can be economically covered, the intensity of production within that area of the commodity to be marketed, and the amounts which potential members within that area can deliver to the cooperative.

Is a Good Manager Available?

Although the survey committee does not hire the manager, it should investigate the availability of such person. Unless there is a strong likelihood that a good manager can be employed, there is little prospect than an organization could succeed even though it is needed. A good manager should be able to plan, organize, direct, and control the operations of a company; understand business principles; and know the product he is to handle, its competition and pricing. He must be able to get things done through others, get along with people, and gain their confidence.

What Facilities Will Be Needed?

What land, buildings, and equipment will be needed to handle the estimated volume of business? Can they be rented, purchased, or will it be necessary to build? These matters have an important bearing upon the amount of capital which will be required. If the required facilities are extensive, consult with engineers and skilled technicians. If the capital requirements are large, examine carefully the possibility of buying or renting buildings and equipment. Actual operating experience will give the organization a more reliable guide later as to the kind and type of facilities most suitable for its needs.

What Funds Are Needed to Begin Operations?

If the volume of business, and the cost of acquiring the necessary land, buildings, and equipment (by rental, purchase, or construction) are known fairly accurately, then the amount of funds needed can be estimated reasonably well. How are these funds to be obtained? What proportion will the members contribute by purchasing stock or by other means? How much can be borrowed and upon what terms? One of the main causes for failure among cooperatives has been underfinancing. The preliminary survey should furnish the information upon which a sound financing plan may be based. Furthermore, the preliminary study should indicate the extent of financial support which member-producers should supply.

Estimated Cost to Run the Cooperative?

An important function of the survey committee is to estimate as well as possible the probable operating cost - totally and per unit of business - and then compare these costs with existing margins of operation to see whether any worthwhile savings can be realized. Knowledge of such costs and probable savings is necessary to dispel exaggerated ideas of potential savings that prospective members may have. Under strong competitive conditions, the committee is likely to find that potential savings are minimal - under imperfect market conditions, quite sizeable. If under the likely volume that can be counted on, little or no savings are predictable, the committee may wish to estimate what volume would be necessary to make the venture worthwhile for the member-patrons.

What Experience Have Potential Members Had With Cooperatives?

A community in which farmers have had long experience with cooperatives is likely to have less difficulty in operating a new cooperative than a community with no cooperatives, or a community that has failed in attempted cooperation. Membership support is likely to grow with experience. Experienced cooperators give their association a chance to prove its worth.

The reception of a new idea depends upon general attitudes, but attitudes are not always based upon economic considerations alone. Customs, habits, social contacts, religion, business connections, types of leadership, education, experience, and a number of other influences will determine the amount of effort and time necessary to make organization a reality. Insofar as possible, those who want to create cooperative associations should evaluate the influence favorable and unfavorable to organization.

Cooperatives should not be unduly promoted by high pressure salesmanship or by over-enthusiastic leaders - they may proceed too fast and too far ahead of their support. Similarity in thougnts and actions is necessary for ventures dependent upon mass approval.

Perhaps the main conclusion to be drawn on this score is that, if the community has had little or no experience in cooperation, the beginnings should be modest. Growth should come with experience.

What Miscellaneous Items Need to be Considered?

The survey committee may look into and incorporate other matters in its report. The following items may be included.

How much will organization cost including the fees for incorporation, attorney's fees, and incidental expenses?

Should an organization agreement (sometimes called a membership agreement as distinct from a members' marketing contract) be used? If so, one must be prepared. Later the number who sign the agreement will indicate the real support for the cooperative and show whether there are enough signers to warrant forming the cooperative.

What services should the cooperative provide? What does the cooperative expect to accomplish? Higher farm prices? Assured market outlets? Quality improvement in products that may result in market expansion and new outlets? Services currently unavailable? Stronger bargaining power for the growers? Lower costs?

What qualifications for membership should be recommended? And to what extent and under what conditions would business be done with nonmembers? Federal tax laws and the Capper-Volstead Act (the federal cooperative marketing act) need to be taken into account on this matter. A credit union, a production credit association, and an irrigation cooperative would, of course, confine their businesses to members only.

If a marketing cooperative is being planned, how will the farmers be paid for products they deliver? Ordinarily, a new cooperative with limited finances and experience does not pay cash outright for products but either sells them for patrons on an individual account basis or on a pooling basis, and pays the growers after operating expenses are deducted from sales receipts.

If a purchasing cooperative is contemplated, should products be priced at the prevailing market prices which competitors charge or less? Net earnings or savings can be returned at the end of the business year in the form of patronage refunds. Price cutting by a new association is dangerous and is not generally recommended - even experienced associations by and large, avoid it.

REPORT OF THE SURVEY

After the survey has been completed, some definite conclusions can be formed relative to the need for organization and the obstacles that may be encountered. The results of the survey should be submitted to the prospective members. If mimeographed copies can be prepared before the meeting, potential members can study the report and come prepared to discuss it. The group should discuss the report objectively at one or several meetings and decide whether to go ahead with organization plans or to drop the idea. If the decision is to go ahead, the chairman should appoint an organizing committee of willing workers including most likely some or all who served on the survey committee.

Some decisions made at this meeting will certainly guide the organization committee. Plans such as capital stock or nonstock, bargaining or multi-service operating cooperative, owning or leasing facilities, use of member marketing contracts or not, and amount of capitalization will very likely have been agreed upon as the survey report was discussed.

WORK OF THE ORGANIZING COMMITTEE

The functions of this committee consist of:

--Soliciting memberships, capital contributions, and signed member marketing contracts.

--Incorporating the association.

--Arranging for the first meeting of the newly incorporated association in collaboration with the temporary president.

Membership Drive

The organizing committee, possibly helped by other interested persons, calls on prospective members getting them to sign an organization or membership agreement, if used. An organization agreement is a member's promise to belong to the association, do business with it, and furnish part of the capital provided sufficient other signers are obtained to warrant going ahead with the association - a number usually stipulated in advance. If the cooperative is to be a marketing association and use a member marketing contract, then no membership agreement will be needed. Instead, signatures to the marketing contract indicate who are ready to join the cooperative and about how much volume will be marketed. These contracts between the potential member and the proposed corporation need to be validated (officially accepted and signed by an officer) when the corporation becomes a legal entity and can be drawn with this in mind.

The prospective member should also be asked to to subscribe to the capital of the organization and

should say how much cash he will pay down on the shares he will take. If the cooperative is to be a nonstock or membership organization, then the membership fee might be collected at the time of the call or assurances given as to when it will be paid.

If the number of potential members falls short of the goal, steps to incorporate will be held up until a special meeting of interested persons decides whether to proceed. Generally, marketing contracts become binding only if a fixed number of signers or stated volume of farm products to be marketed is obtained.

Incorporating the Association

All cooperatives - no matter how small - should incorporate, in order to limit the liability of members for the debts and obligations of the association. It is well to secure competent legal advice in drawing up the articles of association. These articles are, in effect, a charter from the state when accepted by the Secretary of State. The bylaws must not conflict with either state laws or the articles.

Most cooperatives incorporate under state laws. Federal land bank associations, production credit associations, the Bank for Cooperatives, and consumers cooperatives in the District of Columbia incorporate under federal laws only. Credit unions may choose to incorporate under federal laws and approximately one-half have done so.

There are certain steps to follow to incorporate an association. The Articles of Incorporation (forms for capital stock or for nonstock associations can be obtained from the State Department of Agriculture, Madison, Wisconsin or from the secretary of state) are filled out and signed by at least five persons. These articles show the name of the association, its location, purpose, the amount of capital stock, number of shares, and par value (face value) of shares in capital stock associations, the number of directors (in Wisconsin at least five), the general officers and their duties. The original and verified copies of the Articles of Incorporation plus the filing fee are sent to the secretary of state (Capitol, Madison, Wisconsin).

The verified copy returned by the secretary of state should then be recorded with the register of deeds in the county where the central office of the association is located. The legal existence of a cooperative begins when the duplicate original articles are left for recording. Upon receiving the certificate from the register of deeds that the duplicate original articles have been recorded, the secretary of state issues a certificate of incorporation.

The secretary of state charges a fee for filing the articles of association for a new cooperative - $1 for each $1000 of authorized stock, but in no case less than $20; and from a nonstock association, a fee of $20. (State law limits promotion expenses payable in cash or shares of stock to a maximum of 5 percent of the paid up capital stock or membership fee.)

According to Wisconsin Cooperative Law, "after articles have been filed and recorded, an organization meeting of the temporary board shall be held at the call of a majority of the incorporators or of the temporary directors for the adoption of bylaws, election of temporary officers, and transaction of other business."

Arranging for First Meeting of Members

Wisconsin law states that "the first meeting of the members shall be called by the temporary president or a majority of the temporary directors." It is well to work with the organization committee in calling this first meeting (in most cases the members of the committee are also the incorporators and named in the articles as the temporary board of directors). All prospective members should receive written notice of the place, day, and hour of this first membership meeting; and the notice according to law "shall be given not less than 7 nor more than 30 days before the meeting at the direction of the person calling the meeting."

The usual business of the first meeting is the election of a board of directors and the adoption of bylaws. The board of directors should meet soon after this first meeting to elect officers, sign a "waiver of notice" of the meeting of the board, validate (officially accept and sign) the marketing contracts and stock subscriptions now that the cooperative is a legal entity, select a bank with which to do business, select a manager (or at least take steps toward this end), and take actions that will get the association functioning as a going concern.

Bylaws generally include provisions for:

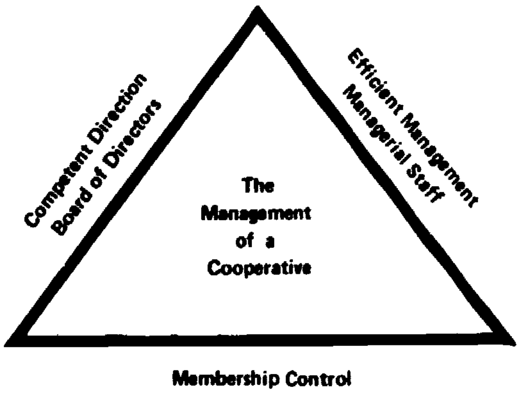
- the designation of the fiscal year.
- eligibility, duties, liability, and termination of membership.
- conduct of meetings of members including notice of meetings, quorum, voting rights, and order of business.
- the election of directors, officers, their compensation, and their removal and filling of vacancies.
- duties of directors and of officers.
- duties and powers of the manager.
- method of cooperative operations involving pooling practices, revolving capital plan of financing, and the distribution of net savings.
- details with respect to capitalization, stock subscription, stock transfer, reserve accounts, and unclaimed allocations or monies.
- compliance with federal income tax laws and state marketing orders.
- provisions for marketing contracts with members.
- compliance with federal income tax laws and state marketing orders
- provisions for marketing contracts with members.
- affiliating with other cooperatives.
- dissolution procedures.
- adoption of a seal
- amending the bylaws.

HOW COOPERATIVES ARE RUN AND MANAGED

The management of a cooperative is composed of three separate and distinct groups: *members, directors,* and *managerial staff.* It requires the active participation of all three to make a coordinated whole. It is not unusual for members to consider themselves quite outside the sphere of management. But in final analysis, the responsibility for management is theirs - as it should be. Their money finances the association, their products are handled, they reap the savings, and they shoulder the losses. Hence, it is logical that final control rests squarely upon the members. Since members share in both ownership and control, they have important duties to perform in the management of their organization.

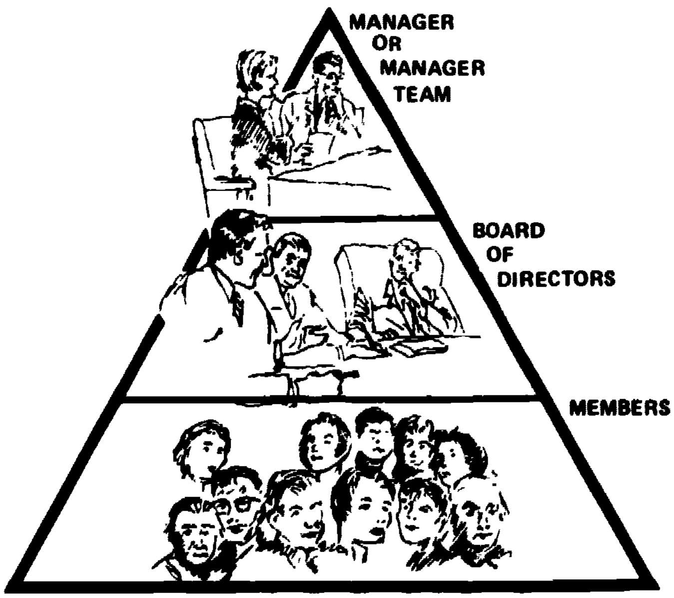
The management of a cooperative may be represented by a triangle.

It is a tripartite arrangement that becomes more complicated as cooperatives become larger and more complex and as intangible as well as tangible factors require consideration.



The management relationship may be pictured in another way.

The
Members
elect
The Board of Directors
which appoints
The Manager
who appoints and supervises
The Operating Staff



MEMBERS ELECT DIRECTORS AND ESTABLISH BROAD POLICIES, DIRECTORS HIRE THE MANAGER AND KEY PERSONNEL AND ACT ON MAJOR OPERATING PROBLEMS, THE MANAGER HIRES EMPLOYEES AND IMPLEMENTS THE DECISIONS OF THE BOARD OF DIRECTORS.

MEMBERS

In both illustrations, management starts with membership. Members formulate the broad general policies of the association and elect directors to supervise the execution of these policies. The manager and his staff put into practice the policies prescribed by the members under the guidance of the board of directors. This division of activities places important responsibilities on members, which should not be taken lightly.

Members participate in management in a number of ways. The most important are when they:

- Adopt and amend bylaws and the articles of incorporation as well as resolutions and and motions presented at meetings.
- Elect and remove directors.
- Approve changes in capitalization and major additions to plant and services.
- Require that officers, directors, and employees carry out the provisions of the articles, bylaws, and mandates of the membership.
- Require an accounting, at least annually, of management's stewardship.
- Assist in financing the organization.
- Support the association with their patronage and, if possible, get others to do so also - and pay accounts promptly.
- Become active in the cooperative's affairs by attending meetings, serving on committees, accepting special assignments, and genuinely backing the association.
- Abide by the decisions of the majority.
- Criticize constructively and suggest new ideas without requesting special favors.
- Keep informed about the cooperative by studying annual reports; reading house organs; conversing with directors, officers, and employees.
- Defend the cooperative and its management when it is unjustly criticized or attacked.
- Cease being a member if throughly dissatisfied with the cooperative before ruining the association for others.

In general, it may be said that members have complete control of the association although they do not always exercise their control. However, in order to exercise this control, they must take action in legally called meetings. The bylaws should specify the procedure to be followed in calling meetings.

Since it would be inconvenient, if not impossible, to hold meetings of members every time a management problem arose, and since the membership is not in position to judge operating details, the members usually delegate powers to the board of directors to act for them. These powers are generally delegated through the statutes, the articles, and the bylaws which define the duties of officers and directors. Since the board acts for the membership, it is very important for members to elect reliable and capable persons to represent them on the board of directors. This is probably the members' number one management responsibility.

However, members do not delegate all their powers to the board. Some are specifically reserved for the members by law. They retain, at all times, the right to approve matters of high policy and to review the actions of the board and management. The annual meeting is held to give members an opportunity to legislate new policies, to review the results of previously adopted policies, and to make changes in the plan of operations.

The officers and managerial staff report to the members of the association at the annual meeting. These reports should compare the operations for the past year with one or more of the previous years. Such a comparison shows the increases and decreases for the year. A clear and understandable financial statement should be a part of this report. Members should see to it that the books and records are checked by an *outside independent auditor*. This is especially important for those organizations doing a considerable volume of business. The auditor should be responsible only to the membership. It is his duty to give members a true and accurate picture of the operations of the association. This protects the directors and the manager as well as the members.

At the annual meeting, the directors and the manager should also tell members of contemplated major changes for the coming year. Such reports give members a chance to ask questions, make suggestions, and, if need be, issue new directives.

Membership participation in management need not be confined to the annual meeting. The bylaws should provide for calling special meetings of members whenever it is deemed advisable by the officers, the directors, or by a small proportion of the membership. The point to be emphasized, however, is that members exercise

their authority *only in legally held meetings.* Wisconsin statutes do not permit voting by proxy, and voting by mail is limited to specific conditions. This means that members, to participate in management, must attend meetings. The voting power of members is equal through the one-man-one-vote principle. This should be an added inducement for members to attend and express their desires through the ballot.

DIRECTORS

Members formulate policies by adopting the Articles of Incorporation and bylaws, and through action taken at annual and other meetings. But they delegate to the board of directors the responsibility of translating these policies into action. It is the duty of directors to safeguard the interest of members.

The directors hire and supervise the manager and others qualified to carry out the members' policies. They interpret the policies of the members and take the necessary steps to put them into effect. The directors prescribe how the association shall be operated to carry out most effectively the expressed wish of the members. A capable board of directors is a "must" to operate a cooperative successfully.

It should be pointed out, however, that directors can act only as a board. An individual director, unless specifically authorized to act by the board, has no authority as an individual director. Directors as individuals should not.

--Interfere with management.

--Give orders to employees.

--Ask or expect favors from the association.

--Speak for the board, unless authorized to do so.

--Show favoritism to relatives.

Duties and Responsibilities

To elect capable individuals as directors, members must have a clear understanding of the duties and responsibilities of directors. Directors must:

- Formulate policies consistent with the objectives of the cooperative.
- Select a competent manager and pay a salary commensurate with his ability, define his authority, and thereafter not encroach upon his rights.
- Implement policies voted by the membership.
- Elect officers of the directorate.
- Raise capital, borrow funds, supervise disbursement of funds and manner of distributing patronage refunds, and determine dividend policies.
- Select depository banks and a qualified auditor.
- Remove officers for cause and fill vacancies on the board.
- Keep records of all board meetings.
- Make contracts, leases, loan agreements, etc., with full understanding of the terms.
- Establish pricing and sales policies as well as general rules for guidance of management such as credit policies, discounts, etc.
- Establish broad policies relative to employees - such as job classifications, pay schedules, retirement, and other fringe benefits.
- Evaluate results and plan for future operations.
- Strive for efficient and competitive operations.
- Direct the manager to prepare before the close of each year an operating budget for the next fiscal year for board approval.
- Perpetuate the association and make long-range plans.

Whatever the duties and powers of a board member may be, he must act or become personally liable for any damages or injuries the association may suffer from his negligence or failure to fulfill the duties of his office. If there is a conflict of interest between a director's interest and that of his association, he should disqualify himself from voting on the issue and have this recorded in the minutes of the board's meeting. He should speak up in a board meeting if he thinks a proposed action is unauthorized or wrong. He should have the minutes record his dissent to avoid any liability on his part to the association or its members for the wrongful act. Perpetration of fraud, neglect of duty, or acting imprudently can make the director personally and legally liable for damages sustained by the association.

However, directors *cannot be liable for mistaken judgement*. They may make serious mistakes, but if they acted in good faith and to the best of their ability, there can be no recourse on the part of complainants, except by electing new directors at the next election.

Large Boards and Committees

The size of boards of directors varies widely. In Wisconsin, there must be at least five members. In this state, boards elect their own officers. Local boards usually have 5 to 9 members. In large associations, especially in regional organizations, the board may be larger. When boards are large, the work may be divided among permanent committees, such as:

A membership committee.

A finance, budget, and audit committee.

A labor relations committee.

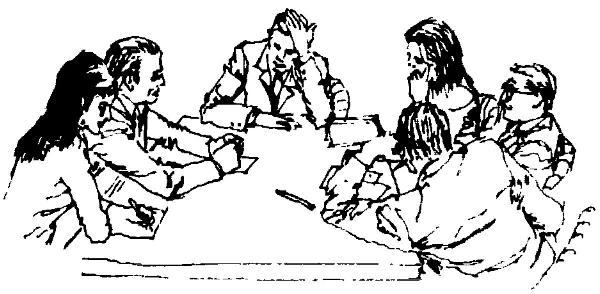
A merchandising or purchasing committee.

A building and equipment committee.

A plant operations committee.

Each committee studies the problems in its particular field, and makes its recommendations to the board for action. (See Griffin, Nelda, Hulbert, Helim H., and Volkin, David, "Director Committees of Farmer Cooperatives," Farm Cooperative Service General Report 85, FCS, USDA, Washington, D.C., 1960, for a discussion of the functions of these committees.)

When the board is large, it is usual to select 3 to 5 members of the board, including its officers, to act as an executive committee. This committee acts, in the absence of the board, within specified limits set by the board, and by the cooperative law of the state (see Section 185.33). The executive committee meets oftener than the entire board and, in fact, becomes an integral part of management in very large cooperatives. All its actions between board meetings should be reviewed by the board at its next meeting. Only those acts approved by the board should remain in effect after the board meeting. The board cannot, however, delegate certain powers as listed in Section 185.33 to a smaller number of its own body.



YOUNG AND OLD, MEN AND WOMEN ALL CONTRIBUTE TO SOLVING PROBLEMS THAT AFFECT ALL MEMBERS.

Election of Directors

The most common and oldest way to elect directors in both large and small associations is by nominations from the floor. Although this may be easy and convenient, it is not necessarily the best way to get a truly qualified and representative board of directors, even in a local association.

The next most common method, and one that has much merit, is to use a nominating committee. This committee of 3 to 5 members (either appointed by the president, by the board of directors, or elected by the members) prepares a slate of candidates, preferably at least two nominees for each open directorship. The nominating committee often publicizes candidates' names and vitae in the cooperative's house publication before the annual meeting, and presents the nominations at the annual meeting. The chairman ordinarily calls for nominations from the floor to add to those recommended by the committee, after which a vote is taken. A nominating committee which represents the different areas where the membership lives can evaluate individual qualifications, make certain that candidates from different geographical areas and with possibly different points of view are considered for a well balanced and able board, and can judge the merits of existing directors for renomination.

Other nominating methods include caucus of the members; petition of members; district meetings

of members; and in federated associations, by member association nomination. Nomination methods of small and large associations are much the same except for methods involving district meetings or member associations in large cooperatives.

Voting by secret ballot is preferable to voting by acclamation. Voting by proxy is not allowed in any cooperative in Wisconsin, but bylaws may provide that delegates may vote in large associations for the members they represent.

Some state laws require farmer cooperatives to have so-called public directors on the board. Such directors do not have to be producers nor members of the cooperative - simply representatives of the public interest as they individually interpret it. Some bylaws state that the public director is to be named by or be the Director of the State Department of Agriculture or the Dean of the College of Agriculture - in other instances the appointment is less specific. In one case, the retired president of a Bank for Cooperatives was chosen to be a public director on the board of a large regional cooperative. A poll of cooperative managers and directors several years ago overwhelmingly disapproved of having public directors.

Qualifications of Board Members

The broad powers exercised by the board of directors leaves much room for discretionary action. Hence, the duties of directors should not be assumed lightly. It is a position of responsibility that should not be permitted to fall into a rubber stamp category. It is a position of leadership requiring certain qualifications.

A director must be a member, and should be an active patron. He should have good business judgement. A willingness to serve and accept responsibility is also essential. Only those known to be loyal to the association, and who consider the position one of public trust should be elected. A director must be able to cooperate with others. He should have a reputation for honesty and integrity, and expect no special favors from the association. He must be able to analyze, make decisions, abide by majority opinion, be objective, and be able to work with others. It would help if he were articulate in expressing his opinions; is an independent thinker, progressive in outlook, and a firm believer in cooperatives as a way of doing business.

In short, the qualifications for a director are good business judgment, a high sense of duty, good character, zeal, and tact - coupled with a sincere belief in the worthiness of the undertaking he is helping to direct.

The way the board of directors assumes its responsibilities largely determines the soundness and growth of the cooperative. There is no substitute for an active and capable board of directors.

MANAGER

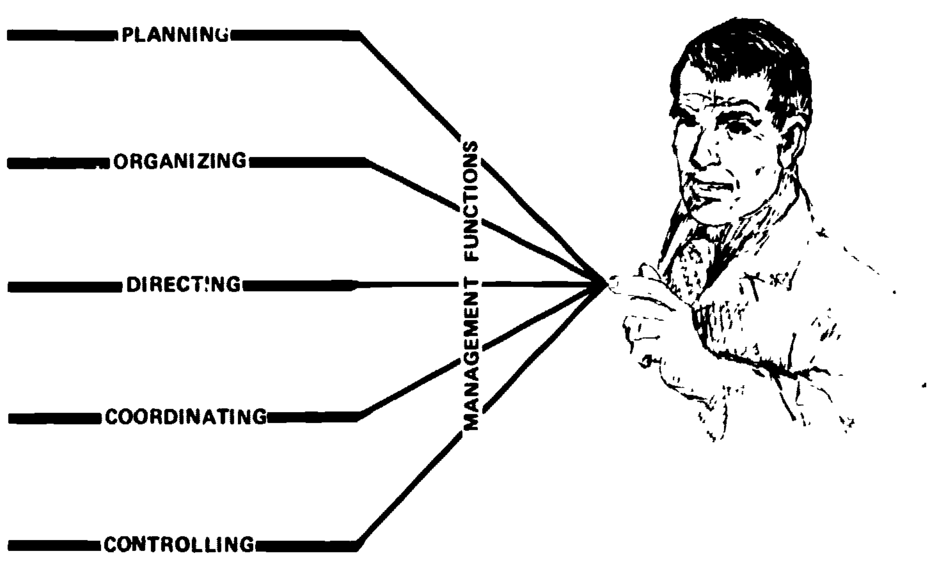
The directors are responsible to the membership. The manager is responsible to the board of directors. The board establishes the broad lines for carrying out policies, but does not execute policy. That is the manager's job. It is sometimes difficult to define the line between formulating policy and executing it, but it is an important distinction to be kept in mind at all times. There should be a distinct and recognizable division of responsibilities between the board and the manager.

The board must assume full responsibility for interpreting the desires of the membership and must formulate policies to fulfill these desires. It may indicate the lines of action, but must leave the details of execution to the manager. The board determines whether the manager and his staff do the job satisfactorily by evaluating the results of their operations.

The manager's job is to serve the member-patrons efficiently, courteously, competitively, and to get things done through other people. To this end the manager uses the business resources at his command, namely, men (labor), money (capital and credit), machines, and materials. His functions are to plan ahead; organize his resources into an efficient, workable organization; direct, exercise leadership, delegate, and get things done by working with and through people. He coordinates and integrates the resources to work as a unified whole. Finally, he controls, appraises, and evaluates performance so as to know when, where, and how to initiate remedial action. To do these things well, the manager needs both technical and executive skills - technical, to solve problems related to physical and inanimate resources; and executive, to solve problems of human resources such as relate to members, employees, competitors, and people generally.

Most boards of directors lean heavily upon capable managers for advice and counsel on many board actions. The manager and his staff are frequently asked to furnish the information upon which policy decisions are based. They are best acquainted with the details of operations, and, thus, are often able to appraise the feasibility of proposals. From this it is clear that there should be a close working arrangement between the board

and the manager. While there may be overlapping duties, the lines of responsibility are quite different.



THE ABOVE INDICATED FUNCTIONS OR DUTIES OF MANAGEMENT NEED TO BE PERFORMED IN ORDER TO ACHIEVE THE PURPOSES AND GOALS OF THE COOPERATIVE.

To prevent confusion in responsibilities, members of the board should not be employed in manegerial positions. The manager is responsible to the board. The board hires - and fires - the manager. When a director is manager, it may become more difficult for the board to exercise its authority over the manager. The manager, in such a case, not only works for the board, but also works for himself as a member of the board. There are outstanding instances where this arrangement has been followed successfully, but as a principle, it is not recommended.

The manager's task is to supervise the operating details of the enterprise. If this involves more detail than one man can personally attend to, he may hire assistants. If the ramifications of the business are national in scope, management may be divided into several departments and an assistant put in charge of each. The more extensive the business, the greater are the problems of supervision and coordination. Members of cooperatives are apt to minimize the importance of a good executive. This is shown by their reluctance to pay salaries commensurate with the services received.

A competent manager should capably and resourcefully operate the business according to cooperative principles and complying with the directors' policies. He must deal with employees and members tactfully. He should genuinely attempt to fulfill the aims of those whom he serves, providing their objectives are intended to promote social and economic well being. He serves all members, and is completely responsible to the directorate.

One of the best indicators of the high quality of management which cooperatives have had over the years are the hundreds of millions of dollars invested in feed mills, refineries, processing plants, large wholesale and retail outlets, and many other service rendering institutions. Farmers would not have these facilities today if it had not been for hundreds of topnotch managers over the years.

EMPLOYEES

It is quite apparent that a successfully run cooperative is many times due to capable, energetic, and honest employees. Their place in the total organization of a cooperative should never be minimized. They can make or break a cooperative. They are that important link between the cooperative and the patron which can create good will for the company or do just the opposite. Sometimes principles of cooperatives are discussed as though adherence to them assures success, but such devotion to ideals generally overlooks the highly practical, albeit mundane, aspects of good employees, competitive pricing, reliable quality products, and satisfying services. The day to day contact between employees and members is the most realistic relationship many members have with the association.

Large-scale regional associations provide opportunities for employees to be upgraded through employee-training programs. Many managers of big companies have started at the bottom. Such training courses not only teach employees to be better salesmen, member contact men, and advisors to members on production problems, but also to know the deeper meaning of cooperation, its principles, legal basis, tax considerations, finances, and other less tangible aspects of cooperatives. Although for many employees work at a cooperative is just like any other job, for others it is an opportunity for dedicated service to fellow citizens and for community welfare.

Employees are often urged to purchase preferred stock, certificates of interest, or other nonvoting equity shares in the company so they will take a deeper interest in the cooperative. They are permitted to share in the distribution of net savings of the cooperative on the grounds that their efforts helped make these savings possible and as partners with patrons in a common endeavor (Wisconsin cooperative law permits this - see Section 185.45 (2) (b)). They are rewarded for suggestions that make operations more efficient. And they are given fringe benefit payments the same as employees in other industries receive.

Employees are often unionized in associations that have a large number of workers and especially in cooperatives that are located in sizeable urban centers. Such union activity among employees, in a sense, counteracts the collective action of the member-patrons themselves.

OPERATING PRACTICES

Associations differ from one another in their operating methods. By no means do they all handle farm products in the same fashion. The more important methods are:

1. Buying products outright from members.
2. Handling products on a separate account basis.
3. Pooling products.
4. Selling on a commission basis.
5. Bargaining for prices.

Buying Products Outright from Members

Some associations pay farmers cash for their products when they are delivered to the association. The cooperative takes title to the products (buys) and then sells them in the market. If the association sells the products at prices enough higher than what was paid for them to cover all expenses and reserves and still have a net earning, then the net earnings may be declared as a patronage payment to the farmers at the end of the accounting period. Most cooperative grain elevators pay cash for the grain as it is received.

Handling Products on a Separate Account Basis

Instead of paying cash for products on delivery, some cooperatives (such as livestock trucking associations) pay the farmers for the products after they have been sold. The expenses of the local association, transportation costs, and terminal market expenses are deducted from the sales value and the farmer is then given a check covering the remaining value. This way the local association does not take title to the products, does not need cash to buy them, and does not have the financial risk inherent in ownership of the products.

Pooling Products

In cooperative cheese factories, milk plants, cranberry, cherry, wool, and tobacco marketing cooperatives, the general practice is to pool their members' products. Each producer's products are not kept separate. Instead, the products of all patrons are mixed according to grades and are handled by the cooperative as collective quantities. In some associations, a partial payment is made to the farmer when he delivers his products and a final settlement is made when all the products have been sold. Each producer receives, therefore, the average price (minus necessary operating costs) at which the products in the pool were sold.

Selling on a Commission Basis

In the terminal livestock, fruit, and vegetable markets, cooperative terminal sales agencies handle products on a commission basis. Since there are no contracts between the local associations at country points and the terminal sales agencies, these agencies handle products for members and nonmembers alike at the usual prevailing commission rates. The sales agency on a terminal market is ordinarily set up and placed on the market by a federation of local associations and individual producers who regularly sell in the market.

Terminal sales agencies differ from marketing federations in the number and type of services performed. Structurally, they are alike - farmers are members of locals and locals of central associations - but whereas the sales agency conducts essentially a commission business, does little or no advertising, branding of products, or storing; the marketing federation, described later, performs numerous marketing services.

Bargaining for Prices

In some respects collective bargaining associations are comparable to labor unions. However, while laborers bargain with employers over wages and working conditions, the farmers' collective bargaining associations bargain with purchasers of farm products over the prices and conditions of sale of the farmers' products. The products are marketed - processed, packed, and distributed - by the buyers, but the price at which all members of the association sell to the buyers is negotiated between the farmers' bargaining associations and the buyers. This type of association is most common among milk producers who supply city markets and privately operated milk plants.

Sometimes associations perform services in addition to bargaining - namely, checking the accuracy of weights, tests, grades, and market uses of the product; improving the quality; and paying the producers. Each farmer delivers his products to the buyer directly. The association does not handle the product. Some bargaining associations have expanded their activities to include operating milk processing plants for surplus milk. When this is done, they are no longer strictly bargaining associations. Instead, they are bargaining and marketing or operating associations combined.

These are the principal ways cooperatives handle their patrons' products. It should be added that large cooperatives often engage in extensive business operations to sell the farmers' products. Cooperative fruit marketing associations not only sell fresh fruit, but may operate canning factories, fruit juice plants, and freezing plants. They may even have their own lumbering operations, lumber mills, and box factories to make the boxes which they use.

RETAIL AND WHOLESALE ASSOCIATIONS

There are two types of purchasing associations - local associations and central purchasing associations. Local associations conduct essentially a *retail business*, such as cooperative feed stores, grocery stores, oil and gas stations, and farm supply stores. Central purchasing associations conduct primarily a *wholesale business* and supply local cooperative retail units with the supplies they handle. Some of the larger wholesalers also operate mills and do processing. The cooperative wholesale organizations are generally federated, with locals as members of the central association. Many central associations, in turn, have gotten together and organized other supplying organizations as well as factories, mills, and processing plants in order to effect greater savings at the manufacturing level. National Cooperatives, Inc. of Albert Lea, Minnesota and United Cooperatives, Inc. of Alliance, Ohio were such cooperatives serving wholesaling units. (These two merged in 1972 - now called Universal Cooperatives.)

The operations mentioned above pertain essentially to farm marketing and farm supply associations. But many other types of cooperatives whose day to day operating practices are quite different serve both farmers and urban people. The credit union and the Production Credit Association (PCA), the Federal Land Bank Associations (FLBA) and the banks for cooperatives each have their own ways to serve their clientele although all four are in the financing business. Cooperatives in the same line of business, such as farm supply centers, do not necessarily operate the same way either - some carry large inventory stocks, others very little; some have a liberal customer credit policy, others do a strictly cash business; etc.. Whatever practices are followed, the aim is to serve member patrons efficiently, honestly, without favor or prejudice, and continuously.

DEVELOPMENTS IN OPERATING PRACTICES AND ORGANIZATIONS

Many changes have taken place in the last 50 to 75 years in operations of cooperatives in the United States.

The Rochdalians organized a cooperative grocery store in England in 1844 using practices that were so successful they are known to this day as Rochdalian principles. They were primarily interested in honest weights and measures; pure unadulterated foods; the right to run their own affairs and to vote in a democratic fashion; the desire to organize unimpeded by restrictive laws; equal control by the people over the running of their store rather than according to the amount

of money invested; and the ultimate attainment of cooperative production on farms and in mills, cooperative distribution, and cooperatively owned housing - that is, self-supporting home communities as advocated by Robert Owen.

Early American farmer cooperatives had some of the same ideals, but, more specifically, were interested in curbing the power of railroads (early Granger antirailroad legislation); reducing the gross margins taken by middlemen; and making the free market function more perfectly by establishing grades, standards, realistic price differentials, etc.. They wanted to solve the rural problems of low prices, uncertain markets, and dealer control, and other aspects of monopolistic and competitively imperfect markets. And they wanted state and federal legislation to legalize cooperatives and to escape the threat of violating antitrust laws. It is apparent that American farmers were primarily interested in cooperatives to improve their economic condition rather than for social reform.

Modern day farmer cooperatives are still primarily concerned about economic matters as they affect farmers and much less so about the public welfare aspects of collective action. Numerous important developments have taken place in the last half century that, unfortunately, are not well known. To mention that 7 farmer cooperatives in 1971 are among the 500 largest business corporations in this country (Fortune magazine) and that a number of cooperatives do several hundred million dollars of business annually (one in 1971 did over 800 million dollars) is quite revealing to many. Other changes that might be mentioned are:

- *Multiple commodity* organizations are replacing single commodity associations.
- *Multiple function* associations are replacing many single function cooperatives.
- Decentralized control in local associations is giving way to much more *centralized control* in both centralized and federated associations.
- There is even greater dependence upon *influencing* prices through effective bargaining, careful grading, product control, branding of products, and market penetration; although earlier cooperatives placed much emphasis upon savings derived by reducing operating costs.
- There is greater emphasis on *merchandising* involving brand names, pricing, dealer service, product promotion, advertising, new product development, and other merchandising techniques while in earlier years, marketing cooperatives essentially handled products - packing, storing, shipping, and consigning to established traders.
- Inadequate and oftentimes poorly financed associations have given way to *financially stronger* cooperatives with more sources of funds. Farmer cooperatives use the revolving capital plan of financing widely and this has resulted in extensive capital accumulations and systematic repayments.
- Cooperatives have *branched out into many fields* including housing, credit unions, all types of insurance, businessmen's cooperatives, optical, medical, and pharmaceutical services, memorial and burial associations, artificial breeding associations, and many other types on a local, regional, and national basis. As a result, nonfarmer membership now exeeds that of farmer membership in the United States. Prior to the twenties, most cooperatives in the United States were restricted to farmers' marketing, purchasing, and mutual fire insurance cooperatives.
- *Extensive business experience* from years of operations at different levels in the market has replaced inexperience or limited knowledge of business practices and procedures. Thus, cooperatives are stronger competitively and are innovators as well as followers.
- For many years increased volume of business depended primarily upon internal growth, but since the fifties many cooperatives have *grown externally* through mergers, consolidations, and acquisitions.
- Prior to the 1920's, cooperatives attempted to get appropriate legal basis for their operations. Since then all states have legalized cooperatives and many states, as well as the federal government, are required by law to assist cooperatives. The tide has changed from restriction of and indifference to cooperatives to *endorsement of and outright promotion* of cooperatives - especially of farmers' associations, rural oriented cooperatives (such as the rural electric cooperatives), thrift associations (credit unions), and cooperatives for disadvantaged groups in urban (ghetto) centers and rural areas.
- *Extensive processing, refining, and manufacturing* by central associations now provide affiliated local supply cooperatives with merchandise.

FINANCING OF COOPERATIVES

Adequate financing is one of the fundamentals of sound business operations. Land (or natural resources) and labor (including management) are the other two elements essential to production in addition to capital. A cooperative also uses these if an efficient job is to be done by the cooperative - ample capital must be provided and used wisely along with land and labor.

PRINCIPLES OF FINANCING

Cooperatives involve give and take by the members. If a cooperative is to provide services at cost and if members expect to benefit from its operations, then it is apparent that members must also assume the responsibility of financing their undertaking. Plans for financing must be consistent with the principles of cooperation as well as with legislation and administrative rulings. Cooperative principles of financing include the following:

1. **Member-patrons control the cooperative** rather than member-investors. Control is not linked with investment as in a standard corporation. Voting in a local or primary cooperative under Wisconsin law is on a one-man-one-vote basis and not according to how many shares of stock a member owns as is done in a standard corporation. The purpose of the cooperative is to provide services at cost rather than to maximize returns on the capital invested in it. Control is, therefore, separate from investment.

2. **Capital should be furnished as much as possible in proportion to the use made of the cooperative** by the individual members. Earlier, mention was made of the basic principle of proportionality - sharing in the risks, receiving benefits, and providing financial support in proportion to the volume of business transacted with the cooperative. From the standpoint of equity this seems fair. Patronage refunds are distributed on a proportional business basis to achieve service at cost. Since this practice is accepted as equitable, it seems logical to require capital investments on the basis of patronage as well. This appears much fairer than to expect equal investments by patrons irrespective of the amount of business each does with the association.

3. The use of capital should be rewarded with **small dividends** when earned. This may not only induce members to invest in their cooperative but likewise to leave their money in the organization after they no longer need the cooperative's services. "Limited returns on equity capital" is a commonly accepted principle of cooperatives. This principle does two things - it subordinates the importance of capital and at the same time recognizes that a modest dividend for its use is fair and desirable. The Rochdalians in 1844 followed the practice that "capital should be of their own providing and bear a fixed rate of interest." Such nominal dividends (4 to 6 percent or so) should only be paid if net earnings warrant it.

4. **Current member patrons should provide** capital and should supplement or replace that provided by members in earlier years. Both ownership and control should be vested in active patrons to maintain the cooperative character of the association. The revolving capital plan of financing (described later) provides for current patrons to do part or all of the financing on a patronage basis.

5. **Cooperatives need adequate capital** to function efficiently and to endure. They need reserves for depreciation, obsolescence, and unpredictable contingencies. Not only is it important to have sufficient capital initially but growth in volume and services requires continued financial expansion. This takes financial planning and top credit ratings with banks and lending agencies.

6. **Business should generate new capital**. This means that gross margins (the difference between the selling price and the buying price) should be wide enough to cover all expenses and also provide for net margins (net earnings or savings). These net margins plus additional earnings from dividends, interest, and refunds constitute the source out of which dividends on stock, allocated reserves, employee bonuses, provision for an

educational fund, and refunds are made. Since the cooperative needs to generate capital for its future use, only part of the refunds will be paid in cash - the deferred refunds will provide needed capital. About half of the profits, after taxes, of American business corporations is retained and plowed back into the business. This is a most important source of capital. It lessens the need to borrow funds, keeps control of the funds in the organization, and since only nominal dividends, if any, are paid to members for the use of such funds, it can also reduce the cost of capital.

7. **Cooperative securities (shares) are redeemed only at their par value** (original face value) and not on the basis of their book value. This reduces speculation since their redemption value is constant. For example, if the par value of a share of common stock is $25, then the holder will be paid $25 for it when it is redeemed by the cooperative, even though the book value (the appraised value of all assets divided by the total number of shares outstanding) might be $30 or $23. Only at dissolution, merger, or bankruptcy is the book value of the shares very significant.

8. **Cooperatives should have the first option to purchase shares of stock to be sold by members**. Generally, such purchase option is stated on the face of the stock certificate. This is essentially a precaution to prevent voting common stock from getting into the hands of persons with possible ulterior motives or lacking in mutual interests with member.

9. **Ways and means of returning capital to members who cease to be patrons** should be devised. A practical and fair stock redemption program should be instituted, possibly through the establishment of a redemption fund, so that patrons who no longer have any need for the cooperative and wish to get their money back can do so without a long waiting period or difficulty in finding a buyer for the stock. Cooperative securities are not listed on the stock exchanges and, therefore, do not have the flexibility of stocks which are. Consequently, assurance of getting their money back upon retirement, leaving the community, or quitting farming would make investment in cooperatives more attractive.

10. **The par value of stock (cost) or membership fees in nonstock companies should be geared to the income of the people** who will comprise the cooperative. Where incomes are low, low value shares should be issued to make it possible for most people to acquire at least one share or membership with voting rights - in wealthier communities shares of higher par value could be issued. Credit unions universally have a low share value for membership - $5. On the other hand, shares in cooperative plywood factories have very high values. Low value shares make it possible to diffuse and extend membership rather easily, but it may likewise cause persons able to invest in more shares to hold back since they have acquired voting rights and full membership status with only one low-priced share. Conversely, high valued shares of $100, $200, or $500 may restrict sales, but these can provide sizeable investments by persons genuinely interested in the cooperative as shown by their willingness to invest such larger sums.

USE OF CAPITAL

Capital is needed to:

- pay costs of organizing the cooperative including such items as attorney's fees.
- provide physical facilities such as land, buildings, machinery, trucks, and equipment.
- meet expenses of operations - payrolls, maintenance, utilities, taxes, insurance, repairs, raw materials, fringe benefits, etc..
- finance farm production through subsidiary agricultural credit corporations, contract farming arrangements, and extension of loans and large accounts receivables.

Of course, capital needs vary greatly depending on whether facilities, trucks, and equipment are leased or owned; whether large or small inventory stocks are carried; and whether finance cooperatives such as Production Credit Associations and Credit Unions are available to finance farm production or whether this is to be done by the cooperative. These are only a few of the considerations that have a bearing upon the need for capital.

Defraying Organizing Expenses

The first need for money in a cooperative is usually to organize. Before an association actually starts business operations, money may be needed to determine the need for an association; to develop an organization plan; to print articles, bylaws, and other necessary organization papers; to sell stock or collect membership fees; to obtain membership contract signatures when membership contracts are used; and to hire an attorney.

Organization expense can often be kept at a minimum if a number of people share the preliminary work. Then the burden will not fall too heavily on a few, and group interest and responsibility is likely from the start. Probably for these reasons, and possibly also to discourage professi-nal organizers, Wisconsin Cooperative Law prohibits using more than 5 percent of the money which is received from the sale of stock to organize. The College of Agricultural and Life Sciences and the State Department of Agriculture can assist groups in the state who contemplate starting cooperatives.

Providing Facilities (Fixed Assets)

One of the main needs for funds by cooperatives is to acquire facilities such as plant site, plant, machinery, and equipment. This is particularly true in local marketing associations, such as dairy plants which manufacture or process. These facilities are what the bookkeeper and accountant call the *fixed assets* of an association. As far as possible, the members should furnish the money for the fixed assets to give the association a strong financial beginning and a good credit base. It is seldom desirable to borrow more than 50 or 60 percent of the market value of the fixed assets.

It may be better to lease physical facilities when they can be leased at favorable rates. To own such facilites ties up large amounts of capital that might be more productively used as working capital in day to day operations. Many chain stores do not own the stores they occupy but lease them. Many trucking firms or users of trucks lease the trucks. With so many leasing firms currently serving American business, it is good business to inquire what savings - cost-wise, tax-wise, service-wise, and financial-wise - can be made from leasing facilities instead of owning them.

Meeting Operating Expenses (Working Capital)

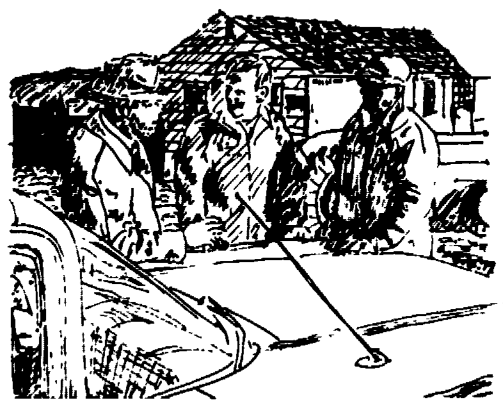
Another major use of money is for operating expenses. This includes the payment of salaries and wages, insurance, taxes, purchase of goods for resale by purchasing associations, and in general, all out-of-pocket expenses. Capital for these uses is commonly called *working capital* or circulating capital.

Working capital is also used for advances or part payments to farmers for commodities delivered to associations to be marketed. It is not only desirable, but necessary, to pay farmers something at the time, or shortly after, the product is delivered. Moreover, the association can generally borrow for this purpose easier and at lower rates of interest than individual farmers can.

When produce is paid for in full within a few days, or even a few weeks after delivery, advances or partial payments are usually not made. However, in some sales associations, final payments are delayed several weeks or even months due to an extended storage or marketing period. Such associations may handle products produced seasonally but marketed over a much longer period. In these associations, advance payments of 50, 75, or even 90 percent of the expected price and value of the products are frequently made so that the producer can pay his bills incurred in producing the products.

Often, cooperatives have enough money for fixed assets, but do not have enough operating capital. If the members have furnished the money for fixed assets, then these fixed assets can be used as security for borrowing money for operating purposes. If fixed assets are also underfinanced, then the shortage of capital might be solved by leasing the facilities and using member investments for working capital. While members should furnish a substantial part of the total capital needed, especially for fixed assets, the amount each member would be required to furnish could still be small and within his means.

"PCA CAN HELP YOU WHEN YOU NEED CREDIT."



PRODUCTION CREDIT ASSOCIATION (P.C.A.) LOANS, FEDERAL LAND BANK (F.L.B.A.) LOANS, AND CREDIT UNION LOANS ARE MADE BY FARMERS' COOPERATIVE FINANCE ORGANIZATIONS TO FINANCE THE PURCHASE OF FARMS, BUILDINGS, MAINTENANCE OF BUILDINGS AND FARM OPERATIONS ON SHORT, MEDIUM AND LONG TERM BASES.

Methods of financing are discussed later, but it may be well to note a few advantages of having adequate working capital. It allows management to take advantage of cash discounts when purchasing supplies. Such discounts are usually 1 or 2 percent for cash payments within 10 days of purchase. Annually, this amounts to an attractive rate of interest. Also, adequate working capital permits buying in large lots rather than on a hand-to-mouth basis. When quantity purchases are made carefully, substantial savings are frequently possible. In general, prompt payment of bills adds to the business reputation of a cooperative, and plant and equipment are likely to be kept in better repair and efficiency when adequate working capital is available.

Financing Farm Production

Since the establishment of Production Credit Associations, there is less need for farmers' marketing cooperatives to finance the production of crops to be marketed. But in the twenties and early thirties some marketing cooperatives, especially in the South among cotton farmers, set up subsidiary agricultural credit corporations to finance farm production. This was one way to help farmers to join cooperatives since credit granted by independent merchants carried with it the obligation to sell the harvested cotton to the merchant. Few cooperatives have such subsidiary corporations for financing farm production today.

However, farm supply cooperatives help finance production by extending credit. Feed, fertilizer, seed, chemicals, equipment, and other items are frequently charged and then are paid for after products are harvested and sold,

Some cooperatives have financed broiler production this way on a contract farming basis. This extension of credit increases the cooperative's need for working capital.

KINDS OF CAPITAL

From the standpoint of ownership, there are two kinds of capital - equity capital and debt capital.

Equity capital is provided by the member owners of the business. In the balance sheet it is referred to as the net worth. It is the equity that the owners have in the business - the dollars left when the total liabilities (money owed to others) are subtracted from the total assets (total worth of the company). Thus, total assets minus total liabilities equals net worth or owners equity. To illustrate, Farmer A has a farm worth $110,000. He has $60,000 of his own money invested in it and has a mortgage of $50,000. The total assets equal $110,000; total liabilities equal $50,000; and net worth or owner's equity equals $60,000.

Debt capital is represented by loans (short and long term such as mortgages), bonds, certificates of indebtedness with due dates, and any other evidences of credit extended to the business. Mortgage credit is used largely to finance fixed assets such as buildings, expensive equipment, trucks, and the like. Debt capital from other sources is used mostly to provide working capital for current financial needs. To measure the working capital a company has, just subtract total current liabilities from total current assets. (Total current assets minus total current liabilities equals net working capital.)

Current assets consist of cash on hand and in banks; accounts receivable for merchandise sold but not as yet paid for; inventory of commodities on hand and ready for sale, processing or manufacture; notes that are collectable within one year; and prepaid expenses such as prepaid rent, prepaid insurance, and similar expenses paid for but applicable to operations for some future period.

Current liabilities consist of accounts payable to suppliers, to members, or to others for commodities furnished; accrued expenses such as taxes, payroll, and interest which have accumulated but are unpaid; and notes payable to banks and others within one year.

SOURCES OF CAPITAL

Cooperative business associations get funds for **equity capital** from members, nonmember investors, and from successful business operations. This capital is obtained in four ways;

1. Members and investors purchase common and preferred stock outright.
2. Memberships are sold.
3. Deductions or per unit retains are authorized for which capital securities are issued (for example, 1 cent per pound of butterfat, 10 cents per box of fruit, etc., are kept by the cooperative for which certificates of investment are issued).
4. Cooperatives retain the net earnings from business operations rather than distribute them - a chief source of funds over the years for many cooperatives.

Considerable equity capital is obtained from a cooperative's business operations. Deductions

are made from payments to member and nonmember patrons of a marketing association and earnings or savings applied to reserves and surplus are examples of this. Payment of patronage refunds in capital stock, in certificates of indebtedness, in capital book credits, or in patrons' equity reserve also builds up membership capital in cooperatives. When payments are delayed to producers for products marketed, it adds to the available capital of an association, at least temporarily. Delaying payment of bills or accounts payable has the same effect as temporarily increasing available operating capital for other purposes, but, as pointed out earlier, this frequently results in additional cost rather than in savings.

Debt capital is money obtained from commercial banks, from Banks for Cooperatives, and from governmental agencies such as the Rural Electrification Administration for electric and telephone cooperatives and the Bureaus of Fisheries, Indian Affairs, and Reclamation. In addition, government insures loans for qualified housing and it participates under restrictive conditions with private lenders in making loans to eligible small business firms. Commercial banks and Banks for Cooperatives grant short-term (30, 60, or 90 day loans), intermediate- (3 to 5 year loans) and long-term loans.

Loans to cooperatives are also classified as *facility loans*, if the money is to be used for plant and equipment; *operating loans*, if the money is to be used primarily for current operating purposes; and *commodity* or warehousing loans when the loans are secured entirely by warehouse receipts issued by an organization other than the borrower. No sharp distinction can be made between these loans, since they are not classified entirely on the basis of use, security, or duration. For example, both facility and operating loans are frequently obtained with fixed assets pledged as security. The money, borrowed on the security of these fixed assets, might finance either facilities or operations. Commodity or warehouse loans are really operating loans backed by a special type of security such as warehouse receipts on products in bonded warehouses.

In the past, fixed assets have been the main source of borrowing power for a local cooperative. Loaning agencies relying solely upon security did not investigate much further than to appraise the fixed assets and to check prior liens (charges against the assets). Some associations use bonded warehouse receipts or accounts receivable as collateral or security for loans.

But creditors also consider other factors than merely the security of the loan. This is particularly true for the district Banks for Cooperatives, which frequently assist cooperatives with their business problems as well as loaning them money. In addition to security, commercial banks and the Banks for Cooperatives are interested in how the money is to be used and whether the association is able to pay the interest and principal out of earnings.

EVIDENCES OF EQUITY CAPITAL

Evidences of equity capital are shares of common stock, preferred stock, certificates of equity, membership certificates, capital book credits, and reserves. Equity capital may or may not be on a revolving fund basis, may or may not bear dividends, and also may or may not have a fixed maturity date. The latter two considerations are left largely to the discretion of the board of directors.

Common Stock

Associations are usually organized on a stock basis when large amounts of capital are needed. Members tend to look upon the purchase of stock both as an investment and as a membership responsibility. Capital stock is issued as common stock and preferred stock. Most cooperatives limit their issue to common stock, although there are important and frequent exceptions. Common stock is more satisfactory than preferred stock from the point of view of the cooperative since common stock carries no fixed dividend rate. The board of directors determines annually what dividend rate, if any, is to be paid on common stock.

In stock associations, ownership of one or more shares of common stock is usually required for membership and voting privileges. Moreover, the ownership of common stock is often limited to producer members. In some states a cooperative may issue two types of common stock - one carries voting rights and the other does not.

It is desirable, in planning a cooperative, to make adequate provisions to assure that the stock will be kept in the hands of active patron-members at all times. This can be done by indicating on the face of the certificate that the holder must first offer the stock for sale back to the cooperative before selling it to any other body. Also, both voting and nonvoting common stock might be issued - voting stock to be restricted to producer-

patrons, and no such restrictions on the nonvoting shares. Whenever a holder of nonvoting stock becomes eligible to vote, his nonvoting stock should be exchanged for voting stock. In every respect except the privilege of voting, nonvoting and voting stock are equal. They carry the same property rights; the same rate of dividends is paid on each; and in the event of liquidation, nonvoting stock shares equally with the voting.

Preferred Stock

Preferred stock seldom carries any voting or membership privileges, but it usually specifies a fixed rate of dividends. Such dividend accumulates for some associations until paid. The holders of preferred stock, regardless of its cumulative feature, have a prior claim over common stockholders upon the annual earnings of the association up to the amount of the dividends, and ordinarily, in case of dissolution, upon the assets of the association up to the par value (cost) of the preferred stock. Cooperatives seldom restrict ownership of preferred stock. Thus, holders of preferred stock are likely to be more interested in the association as investors than they are as members. Large issues of preferred stock tend to place on the association an undesirable, heavy burden at all times, and also make the common stock less attractive to members and prospective members.

Cooperatives should ponder seriously the advisibility of issuing preferred stock that is cumulative. It is sometimes necessary, however, to include this feature to make it attractive to investors who have little or no connection with the association as patrons. While preferred stock usually carries no voting or membership privileges, the cooperative act requires that any amendment of the articles or bylaws relating to preferred stock must be approved by two-thirds of the holders of preferred stock voting at such a meeting. If preferred stockholders are permitted to cast one vote for each share of stock they hold, the amendment shall be adopted by holders of at least two-thirds of the shares entitled to vote thereon. Also, two-thirds of the *member* votes cast must approve the amendment for passage. A copy of any proposed amendment relating to preferred stock and a mail ballot thereon shall be sent to each holder of common stock and to each holder of preferred stock.

Certificates of Equity

Many cooperatives issue certificates of equity to patrons who invest capital through deductions from payments for products marketed through the association, or through earnings which are prorated to the patron but not paid to him in cash during the year earned. Such certificates are called certificates of indebtedness, certificates of interest, advance fund certificates, revolving fund certificates, and patrons' equity reserve certificates. Regardless of the term, all have certain features in common.

They show the patron's contributions to the capital of the cooperative in proportion to the business each patron transacted with the association. They represent funds that belong to the patron and are normally repaid to him later. They sometimes bear interest and are quite comparable, in many respects, to investments in the preferred stock of the association. The money represented by these certificates is used as any other capital which the association has. The certificates are the patron's legal claim to part of the capital funds. The funds belong to the patrons, and the certificates are evidence of the amounts which the association has retained and, hence, owes to the patron. They represent the claims of the patrons on the association.

Membership Certificates

When the nonstock plan of organization is followed, initial capital is usually provided through membership fees. This plan is less adaptable to associations requiring large amounts of capital, since it is seldom possible to raise large sums in this manner.

The property rights in a nonstock association naturally do not accrue the same as in a stock association. An association must provide that members shall have either equal or unequal property rights. Equal property rights mean that each member has the same (equal) claim on the property of the association regardless of the amount of business he does as a patron. Because of the varying amounts of products purchased from or marketed through the association, it is usually provided that property rights shall be unequal and in proportion to the business transacted. The basis upon which property rights are to be determined must be stated in the Articles of Incorporation.

Amendments or repeal of provisions in the articles or bylaws relating to property rights of nonstock associations usually requires a favorable vote of at least two-thirds of the members.

Capital Book Credits

Although many cooperatives issue certificates of equity to represent investments in capital, other associations simply send notices to members of the amount of capital credited to them during the year in the cooperative's books. When this is done, no formal certificates of equity are issued. Such notices of allocation are issued under the revolving capital plan of financing. These notices have considerable merit over formal certificates of equity since the certificates are sometimes lost or destroyed. This trouble is avoided when simple notices of book credits are made.

Reserves

Part of the equity capital shown in the balance sheet is designated as unallocated reserves. Older associations frequently set aside reserve funds for contingencies or for business expansion, without allocating them on a proportional basis among the affected patrons. In Wisconsin these were often called "patrons' equity reserves" and so designated in the balance sheet. Recently, with qualifications for federal income tax exemption more explicitly defined, reserve monies (except those for depreciation and obsolescence) are usually allocated among patrons. As late as the mid-fifties, about 10 percent of the equity capital of marketing and farm supply cooperatives in the United States was still in unallocated reserves.

REVOLVING CAPITAL PLAN OF FINANCING

The revolving capital plan of financing is a unique plan of financing business operations used by about two-thirds of all farmer cooperatives in the United States. Capital is provided by patron-members, used for a time by the cooperative, and then redeemed or repaid to the member-patron on a revolving basis. The revolving fund plan is distinctively cooperative since it is not used by other types of business organizations. It is one of the most effective ways to accumulate capital, to have current member-patrons furnish funds in proportion to their use of the cooperative, and to provide a systematic way of returning investments to member-patrons later.

Marketing, purchasing, and service organizations, and capital stock as well as nonstock cooperatives can use the revolving capital plan of financing provided proper authorization is given in the bylaws or other legal documents. New organizations may begin with this plan at the very start and older organizations may also set up the plan to get members to invest.

How Capital is Accumulated

The first necessity is to accumulate capital. This is done either through authorized deductions (per unit retains) or by retaining part or all of the net savings due patrons (deferred patronage refunds). A third, but rare, way is direct cash investment in revolving certificates that bear interest. Since this latter is the exception, the discussion is limited to the two major ways of getting capital.

Per unit retains are capital contributions withheld from patrons from sums the cooperative owes them. For example, a dairy cooperative may withhold 1 cent per pound of butterfat, or 5 cents per hundredweight of milk from a farmer's milk check for capital purposes in addition to the regular costs or operating charges the farmer pays. Thus a dairy farmer selling 500,000 pounds of milk through his cooperative during the year would contribute $250 to the capital of the association with a per unit retain of 5 cents per hundredweight being withheld from each month's milk check.

Although per unit retains could theoretically be withheld in purchasing associations (for example, 2 percent per dollar of purchases) this does not work well and, therefore, is seldom done. With rare exceptions, only marketing associations use the per unit retain method to accumulate capital.

Both marketing and purchasing associations use the **deferred patronage refund** plan to accumulate capital. Such accumulations can only be made in years in which the cooperative has net earnings and, therefore, has money to be withheld from patrons. However, under the per unit retain method, sums can be accumulated even though the cooperative has no net earnings for the year or even experiences a loss.

The amount of refunds withheld from the patrons for capital purposes depends on the capital needs of the association, upon practical considerations from the members' standpoint, and (since 1962) on federal income tax considerations. For farmer cooperatives to qualify for exemption from federal income taxes, at least 20 percent of the patronage refunds must be paid in cash within $8\frac{1}{2}$ months after the close of the association's business year. This requirement has caused many cooperatives to withhold less than 80 percent of their net savings for capital purposes.

Methods of Showing Investments

As evidence of the investment in the cooperative's capital, the organization may issue to the patron:

--shares of common or preferred stock.

--certificates of investment or equity.

--certificates of indebtedness.

--notices of allocated capital book credits.

Some cooperatives issue shares of **common stock** for the capital sums retained. This is done so that all of the capital in a capital stock cooperative is put on a revolving basis--including the stock which represents original investments in the cooperative. Other cooperatives do not revolve the permanent capital represented by common and preferred stock but restrict the revolvement to that accumulated under the plan. (This latter capital is called *interim capital* as distinguished from permanent capital.) Sometimes only preferred stock is issued and revolved leaving the common stock on a nonrevolving basis.

Certificates of investment or equity without maturity dates and without any guaranteed interest are issued by 90 percent of farmer cooperatives. (These certificates are variously named - revolving fund, per unit retain, capital fund, capital retains, advance fund, building fund, etc..) The board of directors generally decides what rate of interest, if any, shall be paid to certificate holders. Over three-fourths of outstanding certificates of farmer cooperatives in this country were noninterest bearing when a study was made of cooperative financing some years ago. The directors also decide when certificates are to be redeemed. Since the board of directors is in a better position to know the capital needs and financial status of the association than the members, this discretionary power should rest with them. In the mid-1950's, approximately 40 percent of equity capital of farmer cooperatives in the United States was represented by certificates of equity without maturity dates.

Some cooperatives also issue **certificates of indebtedness** for capital accumulation. These generally have maturity dates and fixed interest rates. Technically, a certificate of indebtedness represents borrowed capital rather than investment capital as a certificate of equity does. It is like a loan and, in reality, should be a part of the liabilities shown on the balance sheet rather than a part of the ownership capital or net worth. (In case of bankruptcy, holders of certificates of indebtedness have a prior claim to the company's assets over holders of certificates of equity.) However, cooperatives and their accountants differ in their treatment of certificates. Some distinguish between loan capital and equity capital--that is, between certificates of indebtedness (loans) with due dates and certificates of equity (investments) without any due dates. Others disregard specific designations and consider the capital provided by the member as an investment and part of the net worth in the balance sheet. Certificates of indebtedness may also be issued without maturity dates and without any guaranteed interest rate with both redemption and interest payment being left to the judgment of the directors.

Notices of allocated capital books credits take the place of issuing certificates to patrons. Such notices need to be given so patrons will know the amount of their investments and will have the information for making out their personal income taxes. Since 1966, members must report the amount of money withheld by per unit retains during the year as personal income for tax purposes --if the members do not report this, then the cooperative must pay a tax on these sums. The patron must consent by written agreement or through a bylaw provision to treat the dollar amount of all per unit retains as a cash payment to him which he has reinvested in the cooperative.

Redemption

Not until the first monies withheld are repaid to the patrons can it be said that the capital revolves. Usually, the oldest certificates outstanding are the first to be retired. Thus, money withheld in 1960 might be repaid in 1966, that of 1961 redeemed in 1967, and so on. Generally before any repayment is made to patrons, long term indebtedness is paid. Likewise, if common stock is issued for the retentions, the old original issues are retired before the new stock certificates are redeemed. Once redemption has begun this does not terminate the withholding of additional sums. To be on a revolving basis requires continuous withholding of funds each year, their use by the organization, and the repayment of the earliest monies withheld.

The revolving capital plan is often likened to a water wheel in which the water - the patrons' money retained by the cooperative from their returns - turns the wheel that runs the cooperative's business. At the end of the revolving period, the water is returned to the millstream - that is, the amount of money retained is paid to the patrons to whom it belongs. See Figure 1.

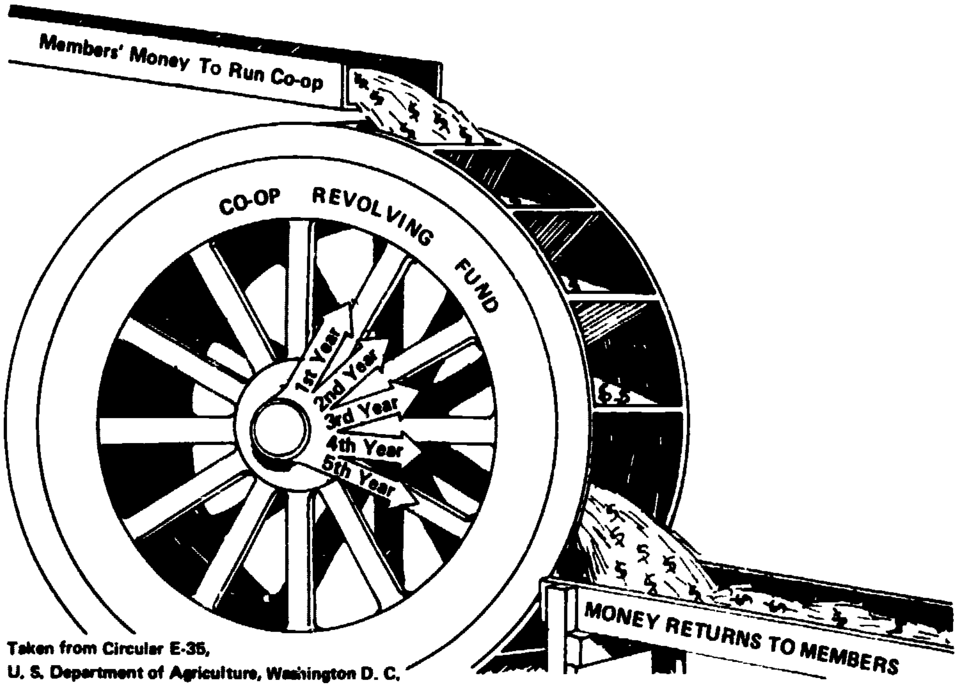
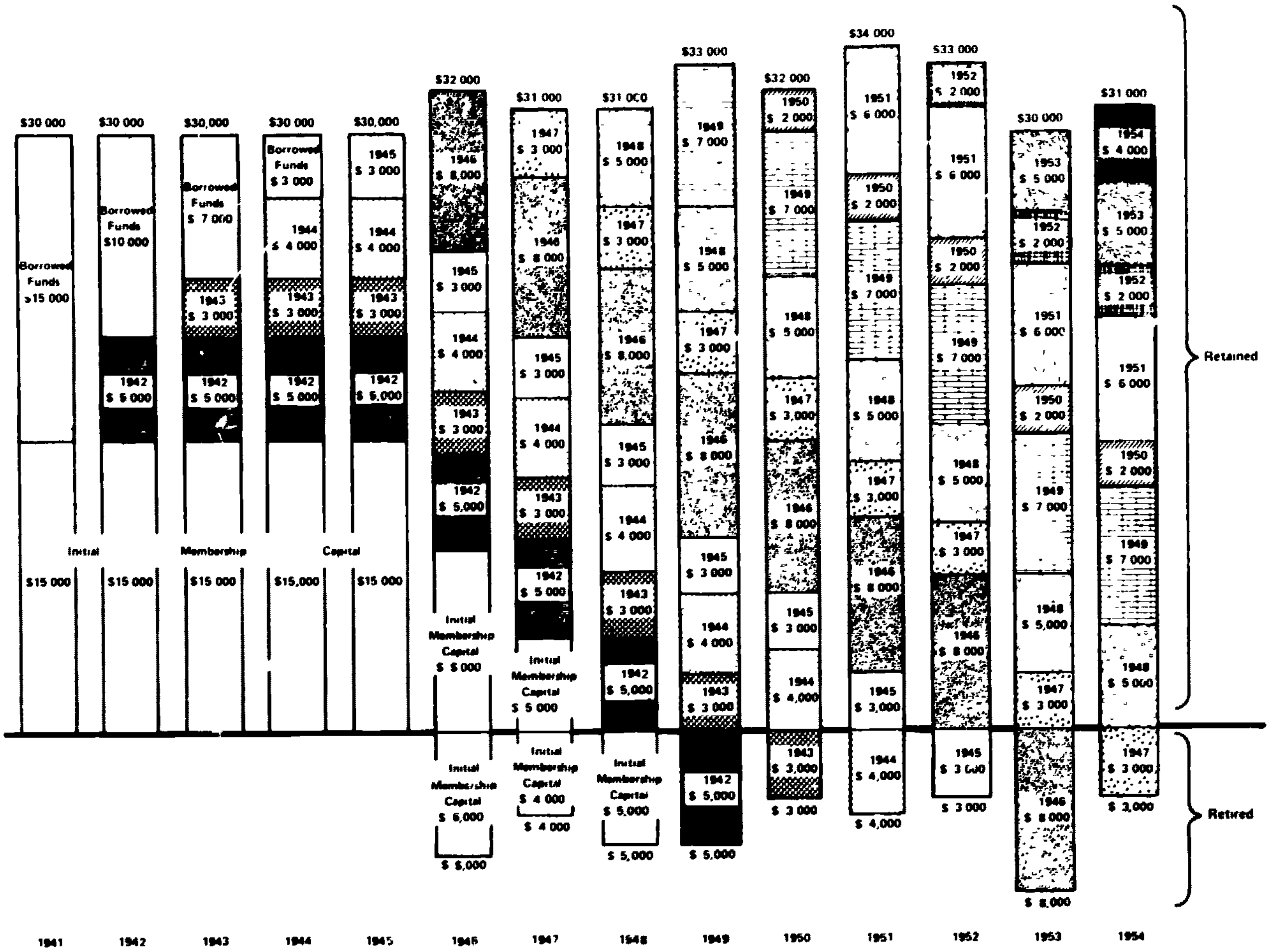


Figure 1. Revolving Capital Plan

The operation of the plan is shown in Figure 2. The chart is based on an association which revolves both its initial capital and that retained subsequently. It is assumed, for simplification, that the association's capital requirements are constant at $30,000 a year. The association started in 1941 with $15,000 of initial capital and $15,000 of borrowed funds. In 1942, $5000 capital was retained. This was used to reduce the debt to $10,000. Capital retentions of $3,000 in 1943; $4,000 in 1944; and $3,000 in 1945 were also applied toward repayment of the loan. This made it possible in 1946 to apply $6,000 of the $8,000 retained that year toward retirement of the initial capital; $4,000 and $5,000 so applied in 1947 and 1948 retired all of the initially invested capital. Therefore, in this illustration the capital began revolving after the fifth year (in 1946). The $5,000 withheld from patrons in 1942 was repaid to them in 1949; the $3,000 retained in 1943 was paid back in 1950, and so on. Retention of funds continued after 1949 and so did repayments of sums withheld in earlier years.



*Farmer Cooperative Service Circular 18, p. 8.

Figure 2. Revolving Capital Plan of a Farmers' Cooperative*

A modification of this repayment plan in which the oldest outstanding certificates or capital contributions are repaid first is the plan in which a certain percentage of *all* contributions is repaid each year. This is shown in Table 3. (Another modification of the revolving plan is the "Adjustable Revolving Fund Capital Plan." See Farmer Cooperative Service General Report 41, pp. 32-36, March 1958, and General Report III, April 1963, for description.)

Table 3. A Member's Capital Equity Account in a Cooperative Retiring Capital Contributions on a Percentage of Total Investment Basis.

Year	Capital Contributed	Capital Revolved (Retired)	Capital Investment At End of Year
1	$ 20	0	$ 20
2	30	0	50
3	50	0	100
4	75	0	175
5	75	0	250
6	40	$50. (20% of $250)	240
7	100	$48. (20% of $240)	292
8	80	$29.20 (10% of $292)	342.80
9	75	$85.70 (25% of $342.80)	332.10
10	60	$83.02 (25% of $332.10)	309.08

During the first five years the cooperative's capital was built up to a desirable level and no revolving took place. During this time the member contributed varying amounts based on his volume of business to a total of $250. In the sixth year the cooperative retired 20 percent of its capital contributions under the plan and thus retired $50 of this member's investment. He only contributed $40 to the capital fund that year - thus his total investment was reduced to $240. In subsequent years, the amounts he contributed varied based on his volume of business. The amounts retired also varied - according to the decision of the board of directors. (In some cooperatives, a higher percentage of the most recent years' capital contributions is repaid and a lower percentage is repaid on the remaining capital investments. This is done particularly to benefit young farmers who may be short of cash in their farming operations.) It is apparent from Table 3 that the amounts refunded during a year had no relation to the specific amounts withheld in particular previous years.

Advantages

The widespread use of the revolving plan suggests that cooperatives have found it workable and meritorious. The advantages include the following:

1. Patrons contribute capital in proportion to the use made of the cooperative.
2. Current users of the cooperative help finance its operations.
3. The plan aids persons to acquire ownership and membership in the organization relatively easily.
4. Cost of capital funds can be kept low if no interest is paid on the revolving fund certificates.
5. The revolving plan is a relatively easy way to accumulate capital - easier, for example, than to sell stock to patrons.
6. It makes nonmembers who are patrons of the cooperative also finance the cooperative in proportion to their patronage.
7. It provides a systematic way to retire capital following its use by the cooperative - farmers retiring from farming or moving away from the community can get their investments repaid.
8. The plan is virtually a forced savings plan for members who may have difficulty saving money.
9. It enables members to use the certificates as collateral for loans from banks. Some patrons have also used the certificates to pay (often at less than their face value) for farm supplies purchased from noncooperative dealers.
10. Once the plan is put into operation, it requires a minimum of administration.

Disadvantages

Some of the so-called disadvantages of the plan are hypothetical and have not caused cooperatives to discontinue using the plan. Instead of calling these disadvantages, it might be better to refer to them as possible weaknesses.

1. The plan is not adjusted to the patron's ability to invest. It may place a heavier burden on the young farmer short of cash than on an older farmer well-heeled financially.
2. If revolving is delayed a long time - 10 to 15 years (the average revolving period for farmer cooperatives in the United States was about 10 years during the 1950's) - then patrons can suffer from the depreciated value of their investments as a result of inflation. (The reverse would be true with deflation.)
3. It is difficult to maintain an established and fixed revolving plan on a declining volume of business. Also, it is necessary to deviate from an established repayment plan if major needs for capital arise - for a building program, development of new sales territories, and the like. Patrons' reactions to such changes will depend on how well informed they are as to the need for changes.
4. Some members may not regard their contributions to the revolving capital fund as investments, but rather as operating expenses. This can give the cooperative an undeserved bad reputation and suggests the need for continuing education about the plan.
5. The plan could easily lead to unwarranted expansion of the cooperative because of the ready availability of funds - "easy come, easy go."

6. Per unit retains, though capital contributions and *not* income to the cooperative, nevertheless, are taxable as income to the cooperative since 1966 *unless* the patron consents to include them in his personal income tax report. Thus, failure to get the patron's consent would automatically increase the cooperative's tax burden.

7. It would be difficult to revolve capital obtained in years of high prices and wide margins during years when prices are low and operating margins are narrow. This latter period would be one with little or no net earnings and, therefore, no deferred patronage refunds. Also, for practical reasons the per unit retains may be omitted or reduced. This would undoubtedly cause, in most instances, a longer revolving period or less repayment.

8. In view of the time value of money, patrons receiving *no interest* on their certificates would experience a loss at time of repayment since, for example, $100 received today by the cooperative would be worth $162.89 in 10 years at 5 percent compound interest ($179.08 at 6 percent; $196.72 at 7 percent) but only $100 would be revolved to the patron. However, if annual *simple interest* of 5 percent is paid, then the patron at the end of 10 years would receive $150 ($100 plus $50 in interest) on his $100 investment ($160 at 6 percent; $170 at 7 percent).

9. There is no positive assurance the patron will get his money back - the cooperative may go bankrupt, fail, or simply be unable to make payments. This puts patrons in a vulnerable position compared to those who receive full cash refunds and have no unit retains withheld.

RESERVES

Reserves are the shock absorbers of a business. Sudden losses, markdowns in prices, shifting consumer demand, obsolescence, competition from substitute products or from new producing areas - these and many other changes are risks which a business must be prepared to meet. Reserves for these purposes are very important.

There are two major classes of reserves - **valuation** reserves for depreciation, depletion, obsolescence, and bad debts; and **capital** reserves for expansion of business, ability to meet future financial losses, and enlarging the working capital. These are either allocated to each patron proportionally or unallocated. In addition to these two major categories, some businesses set up additional reserves for specific purposes, such as contingency and accrued expense reserves, and show the amounts in their balance sheets.

Although reserves are shown on the books of the cooperative for these various purposes, it is not to be inferred that these monies are isolated from use until emergencies arise to use them. The monies *are* currently used. Bookkeeping entries show their designation and that provisions have been made to cover these eventualities instead of paying out these monies to patrons or shareholders as dividends or refunds.

Reserves are generated from business operations - either from deferred patronage refunds or per unit retains - and, therefore, depend on the cooperative's business success and on their creation by the board of directors.

Depreciation and obsolescence are hidden expenses of doing business and VALUATION RESERVES are entered on the books to cover them. Such reserve is built up at about the same rate that the physical property wears out. Thus, if a machine is estimated to last 10 years and a replacement fund is to be built up to purchase a new machine after 10 years, then 10 percent of the original cost needs to be added to the fund for each of the 10 years. (Accountants do not only use this straight-line method. They may build up the reserve fund more nearly in line with the actual depreciation rate of the machine. This illustration merely shows the principle involved.)

Some associations call the reserve set aside for bad debts and other losses a "sinking fund." Livestock shipping associations build up sinking funds to pay losses sustained in shipping livestock to market.

CAPITAL RESERVES are designed principally to increase the working capital of a firm and to provide funds for expansion. They should be allocated on a proportional basis to member patrons since these reserves are built up from incomes belonging to the patrons (either as unpaid patronage refunds or as per unit retains). In federal income tax exempt cooperatives, proportional allocations must be made or the cooperative will have to pay income tax on the unallocated funds. Valuation reserves, however, are not allocated since these cover operating expenses.

Reserves may also be classified as OPTIONAL, those depending upon the board of directors' decision as to how much, if any, are set aside; and MANDATORY, those required by state or federal law. Most credit union laws, federal and state,

require that some earnings (usually 20 percent of net margins) must be set aside as a reserve or guaranty fund, up to a given percentage of assets. In a number of states, mandatory reserves of about 10 percent of net earnings must be set up until the total reserve equals 30, 40, or 50 percent of the paid-up capital stock. (Although the Wisconsin Cooperative Law of 1911 required a mandatory reserve of 10 percent of net earnings until the reserve fund equalled 40 percent of paid-up capital, amendments to the law in the 1920's eliminated this requirement.) Cooperators and cooperative leaders generally agree that such forced action is no longer called for, if it ever was, and that the decision respecting reserves should be left to the discretion of management and the directors.

FINANCIAL STATEMENT

Modern business management uses four resources - men, money (or credit), materials, and machines (or capital equipment). The management of financial resources requires a great deal

ASSETS — what is owned
CURRENT ASSETS
CASH — on hand and in banks
ACCOUNTS RECEIVABLE — Money owed to the cooperative for commodities sold but still unpaid less provision for bad debts.
INVENTORY — Commodities on hand ready for sale or in process of preparation and manufacture realistically evaluated at cost or market value, whichever is lower.
PREPAID EXPENSES — Prepaid rent, unexpired insurance, utility deposits, and similar expenses paid for but applicable to operations for additional periods of time.
NOTES RECEIVABLE — Promissory notes to be paid to the cooperative within one year.
TOTAL CURRENT ASSETS — Assets normally turned into cash in the near future, usually within a year.
FIXED ASSETS — Land, buildings, machinery, trucks and equipment; depreciated to present worth.
OTHER ASSETS
INVESTMENTS — Investments in other cooperatives, Bank for Cooperatives, etc.
TOTAL ASSETS — Total of what the cooperative has in its possession.
LIABILITIES — what is owed to others
CURRENT LIABILITIES
ACCOUNTS PAYABLE — Due to suppliers, members, or others for commodities or services furnished.
ACCRUED EXPENSES — Taxes, interest, payrolls, expenses, pensions, social security payments, etc., which have accumulated but have not been paid.
NOTES PAYABLE — Amounts owed to banks and others for money borrowed and payable within one year.
TOTAL CURRENT LIABILITIES — All debts payable within one year.
LONG-TERM OR FIXED LIABILITIES — Mortgages, certificates of indebtedness, and other long-time debts incurred and payable after one year from the date of the financial statement.
TOTAL LIABILITIES — Amount owed the creditors.
NET WORTH OR MEMBERS' EQUITY — what members have invested in their association; difference between what is owned and what is owed.
SHARES (Common and Preferred); MEMBERSHIPS -- Par value of shares of stock or membership certificates issued and representing investment in the capital of the association.
PART-PAID SHARES (Stock subscriptions) or MEMBERSHIPS — Amounts credited on the books of the association toward shares or memberships, that is, partly paid shares of stock or memberships.
RESERVES — Amounts set up out of savings of the association to meet uncertainties, and to furnish capital.
DEFERRED PATRONAGE REFUNDS, REVOLVING FUND — Refunds credited to members in previous years, payable at some future date.
UNDISTRIBUTED SAVINGS — Current savings which are available for distribution to patrons, transfer to reserves, etc.
TOTAL MEMBERS' EQUITY — Total member investment.
TOTAL LIABILITIES AND MEMBERS' EQUITY — Amount owed and invested by members.

Figure 3. Balance Sheet — Statement of the Financial Condition of a Cooperative on One Particular Day (Based in Part on "For Study and Action — Learning the Language", Cooperative League of U.S.A., Pamphlet 43 (1) Chicago, Ill.

of skill, foresight, and planning especially as businesses become larger and more complex. Large companies hire comptrollers for this specialized and technical function. Management uses financial analysis as one technique. It examines the financial statement prepared by accountants or bookkeepers which consists of two basic parts - the **balance sheet** and the **income statement** (also called profit and loss statement, operating statement, or the earnings report).

The BALANCE SHEET presents the financial picture or position of a firm as it stood at the close of a particular day - generally, the last day of the business year as shown in the annual report of the firm (December 31, August 31, April 20, or whatever other closing date of the business year).

The INCOME or OPERATING STATEMENT records the company's operations for the period covered, usually for the 12 months business year. The statement could be for a shorter period such as monthly, quarterly, or semiannually. Although frequent and timely financial statements are highly valuable for effective management, the high cost of getting an audited report oftener than once a year deters such preparations. However, unaudited reports for interim periods prepared by bookkeepers are most helpful to management, bankers, and others who attempt to keep up to date on the firm's operations.

Balance Sheet

The balance sheet consists of three parts - the assets, liabilities, and net worth of a firm on a given date. Ordinarily the assets are shown on the *left* side of the balance sheet; the liabilities and net worth on the *right*. Both sides are always in balance because the total resources or assets of a business equal the amount required to pay liabilities plus what remains for the owners. The breakdown of the constituent parts of the balance sheet and a brief description of each item follows in Figure 3. A sample balance sheet is shown in Figure 4.

Members Cooperative Oil Company

December 31, 197_

ASSETS			LIABILITIES AND NET WORTH		
Current Assets			Current Liabilities		
Cash	$ 96,774.96		Accounts Payable	$ 49,446.13	
Notes and Securities	62,444.99		Accrued Expenses	36,099.32	
Accounts Receivable	127,655.61		Patron's Refunds Payable	29,799.02	
Inventory	128,206.44		Patron's Credit Balances	1,345.27	
Total Current Assets		$415,082.00	Total Current Liabilities		$116,689.74
Fixed Assets			Fixed Liabilities		
Land	$ 19,245.37		Debenture Bonds	$105,810.00	
Buildings	96,589.24		Total Fixed Liabilities		$105,810.00
Equipment	176,195.15		Total Liabilities		$222,499.74
Trucks	33,152.12				
Total	$325,181.88		Net Worth or Members' Equity		
Less Depreciation	104,160.97		Shares – Common Stock	$ 95,705.00	
Total Fixed Assets		$221,020.91	Share Credits	17,570.50	
			Allocated Equity Credits (Reserves)	517,300.87	
Other Assets			Capital Reserves – unallocated	54,892.62	
Prepaid Insurance	$ 1,562.08		Total Members' Equity		$685,468.99
Investments in Coops	270,303.74				
Total Other Assets		$271,865.82			
TOTAL ASSETS		$907,968.73	TOTAL LIABILITIES AND MEMBERS' EQUITY		$907,968.73

Figure 4. Sample Balance Sheet

Income and Expense Statement

The income or operating statement records the income and expenses which have resulted in net earnings or loss during a given period. Its principal divisions are:

- operating income or net sales.
- cost of goods purchased and sold, or cost of goods manufactured and sold.
- operating expenses which may be divided into distribution costs, administrative expenses, and general expenses.
- other income and expenses.

The money from sales less allowances for returned merchandise and less such things as state sales tax leaves **net sales** - the amount the firm received for goods disposed of. To figure the cost of goods sold, add the net amount of goods purchased during the period to the cost of the inventory on hand at the beginning of the period and from the total deduct the cost value of the inventory at the close of the period.

The net sales minus the cost of the goods sold leaves the **gross margin** or **gross profit** . The expenses of operating the cooperative must be paid and the net margin or loss of operation be determined out of this gross margin. The gross margin is also expressed as a percentage of net sales and is one of the very important percentages which an astute manager watches.

The **net margin** indicates how successful the year's operations have been from an accountant's viewpoint. To this net margin are added the patronage refunds received on business transacted with a central cooperative and other incidental or nonoperating revenue (minus incidental expenses) to make up the cooperative's total net earnings. If federal or state income taxes are paid, then these amounts are deducted before the total net earnings are shown. The final **net earnings** (savings or profit) measures the financial success of the firm over that period and indicates the skill with which it was managed. The items in the operating statement are briefly described in Figure 5 and shown in the sample operating statement, Figure 6.

GROSS SALES – Dollar value of products and services sold.

NET SALES – Gross sales less returns of merchandise; allowances such as advertising allowances, transportation allowances, and quantity and cash discounts; and sales taxes.

COST OF GOODS SOLD – Beginning inventory at cost plus purchases of goods to be sold minus cost of inventory at close of period.

GROSS MARGIN OR GROSS PROFIT – Net sales minus cost of goods sold.

EXPENSES – Operating expenses divided into general expenses; sales or distribution costs; administrative expenses – or salaries and wages; plant and equipment maintenance costs; and office and general supplies.

NET MARGIN OR NET OPERATING PROFIT – Gross margin minus expenses.

OTHER INCOME – Incidental revenue minus incidental expenses plus patronage refunds, dividends, and interest on investments – also called nonoperating income to distinguish from the operating income (from sales less expenses).

INCOME TAXES – Taxes that are deducted from net income before taxes.

TOTAL NET EARNINGS OR LOSSES – Residual after expenses plus income taxes are deducted from all income – also called net savings or net profits.

Figure 5. Income and Expense Statement – listing of income, expenses, net margins, other net income, and total net earnings.

Members Cooperative Oil Company
Year Ending December 31, 197_

NET SALES		$845,527.51		100%
COST OF MERCHANDISE SOLD		598,912.76		70.84%
Gross Margin			$246,614.75	29.16%
OPERATING EXPENSES				
Distribution				
Salaries and Wages		$100,027.65		
Payroll Taxes		3,851.96		
Truck Expense		12,230.95		
Advertising		1,747.23		
Total		$117,857.79		13.94%
General				
Repairs and Supplies		$ 4,125.44		
Heat, Water, Electricity		2,614.72		
Insurance, Bonding		7,117.44		
Property Taxes		3,339.87		
Depreciation		17,714.26		
Miscellaneous		2,691.76		
Total		$ 37,603.49		4.44%
Administrative				
Legal and Auditing		$ 661.03		
Directors Fees and Expenses		1,009.59		
Telephone, Telegraph		942.84		
Travel		500.21		
Total		$ 3,113.67		0.37%
Total Operating Expenses			$158,574.95	18.75%
Net Operating Margin			$ 88,039.80	10.41%
Other Income				
Patronage Refunds Received		$ 38,066.91		
Other Revenue	$11.649.41			
Other Expenses	17.585.05			
Loss		($5,935.64)		
Total Other Income			$ 32,131.27	3.8%
Total Net Earnings			$120,171.07	14.21%

Figure 6. Sample Income and Expense Statement

Using the *financial* statement, comparisons can be made with previous years as well as with similar cooperatives. The net working capital (current assets minus current liabilities) can be determined from the *balance* sheet - as can such ratios as the current ratio (current assets divided by current liabilities), the ratio of fixed assets to total assets, the fixed assets to net worth, the total liabilities to net worth, the net worth to total assets, and other informative ratios. In addition, ratios based on data in the *operating* statement and others based on figures from *both* the balance sheet and operating statement are highly useful in appraising the condition of a cooperative. Ratios are symptoms of good or poor management.

Based on the figures in the balance sheet (Figure 4), the net working capital and above named ratios would be as follows:

- Net working capital (current assets minus current liabilities) = \$415,082.00 - \$116,689.74 = \$298,392.26. (This association has ample working capital for the total sales volume of \$845,527.51.

- Current ratio - \$415,082.00 ÷ \$116,689.74 = 3.56. (For each dollar of current payments that must be made, the association has \$3.56 of current assets.)

- Ratio of Fixed Assets to Total Assets = \$221,020.91 ÷ \$907,968.73 x 100% = 24.3%. (Roughly, one-fourth of all the assets are represented by land, buildings, trucks, and equipment. This cooperative had slightly more than this invested in other cooperatives (\$270,303.74) from which it obtains supplies.)

- Ratio of Fixed Assets to Net Worth = \$221,020.91 ÷ \$685,468.99 x 100% = 32.2%. (Fixed assets represent only one-third of the net worth - a relatively high degree of solvency is shown.

- Ratio of Total Liabilities to Net Worth = \$222,499.74 ÷ \$685,468.99 x 100% = 32.5%. (Another indicator of solvency since the liabilities or obligations of the association are only about one-third of the owners' equities or net worth.)

- Ratios of Net Worth to Total Assets = \$685,468.99 ÷ \$907,968.73 x 100% = 75.5%. (A further indicator of high solvency since the members' equities equal three-fourths of the total assets and only one fourth is held by creditors.)

KEEPING THE MEMBERS AND PUBLIC INFORMED

Two principles established by the Rochdale pioneers in 1844 dealt with member education and information - first, a definite percentage of profits should be allocated to education; and, second, frequent financial reports should be given to members. In 1966, the International Cooperative Alliance reiterated this principle as follows:

> "All cooperatives shoud provide for the education of their members, officers, employees, and the general public in the principles and techniques of cooperation."

Most cooperatives profess a belief in these principles. However, their implementation of these principles varies from little or nothing to elaborate member and public relations staffs.

Cooperative information programs have usually involved several distinct areas: member relations, public relations, and employee relations. Training programs for directors, management staff, and employees are sometimes included. New programs are constantly being developed and old ones dropped or modified to meet changing situations. A new term, cooperative communications, is now used to describe all cooperative information and education programs.

NEED FOR EDUCATION PROGRAMS

Cooperatives have special communication and education needs because of their unique organization. These are:

1. Since those who do business with the cooperative usually own and control it, members or patrons must be well informed to make sound decisions.

2. Directors are generally selected from the membership and patrons of the cooperative. Thus, many new and inexperienced directors need to be informed and educated about the cooperative business.

3. Cooperative management is generally hired and not associated with investment and ownership so they need to realize the uniqueness of cooperatives.

4. Cooperatives frequently must communicate and decide major policy actions in a public environment and not behind closed doors.

5. As owners, members often expect more from their cooperatives than from other businesses. They feel that it is even more important that cooperative practices and policies should be in the public interest.

PAYOFF IN MEMBER COMMUNICATIONS

Money spent on well-planned and carefully evaluated member communications programs is a good investment. Goodwill and understanding can be banked in members, as money is stored in a bank, and can be drawn on in time of crises when loyalty and support are needed.

A well-informed member who understands the organization, its policies and actions, generally will remain more loyal, have fewer complaints, and take a greater interest. He will patronize the cooperative when given a choice, stay with the organization when the going is rough, and offer more constructive criticism and suggestions. He will inform his neighbors about the organization in terms they understand, serve as an effective salesman for the organization, help promote new products and services, and be easier to do business with. He will meet his obligations and pay his bills to the cooperative. An educated member will help stop rumors; defend the cooperative; and develop a favorable climate of understanding between members, employees, and directors. He will promote a progressive attitude and build member confidence in the cooperative and its management. A knowledgeable member will develop a pride among members and within the community in the cooperative as a business organization - and he will inform the community of the cooperative's contribution to the local economy.

NEW EMPHASIS ON COMMUNICATIONS

In recent years, cooperatives have had a renewed interest in communication programs. This has been partly due to the passing of control from first to second generation cooperative members, to the rapid growth of many cooperatives, and to a general realization by many cooperatives that education programs have been neglected for years.

The New Generation

Cooperatives in Northern Europe have a common saying that "a cooperative without an education program will last for a generation and a half." For many American cooperatives the last half generation is already here. This task of educating new and younger members and developing new leadership is continuous. These new members need to know the value of the cooperative, why it was formed, what has been accomplished, and its future goals. John Gardner, in his book *Excellence,* describes the second generation problems of any organization as follows:

> "... when a group forces its way to the top - their most precious asset is their drive, their sense of purpose, their indomitability. And that is the asset they cannot easily pass on. They can pass on wealth and their knowledge and their influence, but they cannot pass on the memory of hardships, the will to win, the fierce determination born of struggle."

The cooperative member of today and tomorrow is *different* from his father or grandfather. He is better informed, has more financial resources at his command, appraises his cooperative's performance more analytically, and is less swayed by promises and exhortations.

His interests are primarily oriented toward economics and less towards altruism, community welfare, and emotionalism. Even though most Americans will enjoy a shorter workweek, the demands on the member's time will be ever greater. A communications program must be very carefully considered if it is to command the attention of such members.

Research has shown that *younger* cooperative members have different attitudes from older members. Younger members are more interested in getting a return *now*, not sometime in the future. They are less patient with cooperative shortcomings and depend less on their local director for information than do older members. In many instances they feel the cooperative has not let them participate and work up to leadership positions. These attitudes have often led them to participate less in cooperatives than do older members.

The modern farm family often operates as a management team. The husband is responsible for most of the physical work while the wife participates in decision making and office management. Yet, many cooperatives have neglected the *member's wife* as a potential part of the cooperative. For example, annual meetings often have separate programs for women--and very few boards of directors include women in their membership.

Cooperative Growth

As cooperatives have grown, communication has become more complex. Bigness contributes directly to the problem because the rate of participation goes down as size goes up. For many cooperatives the growth problem is how to be big businesswise but seem small to members. In other words, the organization must be large enough to operate efficiently and bargain effectively in the market place, but must appear small enough for the local member to feel effective.

Cooperative Image

One of the most important reasons for having a communications program is to maintain a favorable cooperative image. Unfortunately, cooperatives often have not had a good image in the eyes of the public. Some of this has been due to deliberate misleading of the public by those who are against cooperatives and some has resulted from cooperatives failing to keep the public informed.

Some people consider cooperatives undemocratic, socialistic, unfair competition, poorly managed, only for the poor, tax dodgers, or perhaps they never had enough information to form any kind of opinion. Businessmen are frequently uninformed about cooperatives. It is not uncommon for local cooperatives to be the largest local taxpayer in rural communities, yet this fact may not be known by the general business community.

In recent years many cooperatives have developed programs to inform the public.

PREREQUISITES FOR SUCCESSFUL COMMUNICATIONS

To have a successful communications program, internal or external, several conditions must be met. These include a board and management committed to a communications program, good business management, excellent products and services, a well-planned communications program, and opportunities for feedback.

Cooperative Commitment

Management and the board of directors must be committed to a cooperative communications program if it is to be successful. In addition to moral backing, they must provide an adequate budget; a well-trained staff; and guidance in planning, control, and evaluation. Programs should operate continually; not just when the cooperative has a problem.

Evaluation, or the measuring of results, is one of the most important and often neglected areas in communications. It should be a part of the total communications program and should be included when planning communications. Periodic evaluation should be required for all ongoing programs.

Management

A communications program is not a substitute for adequate management. Basic operating difficulties should not be concealed from members. When the deception is discovered members will distrust the board and management and may leave the cooperative or may want to eliminate or curtail communications programs. This could be worse on the cooperative than if problems were freely discussed. In other words, a communications program should not be used to frost a rotten cake.

Products and Services

Products and services that are just as good as or better than the competitors' are a desirable back up for communications programs. As with management, communications programs are not a substitute for performance.

Planning

Before starting a communications program, the cooperative should do some *preplanning*. The planners should gather information about the members, market, competition, and the general economic situation. Information about members should include their age, income, education, geographic location - and, though not as easy to measure, their attitude toward the cooperative. All of this information should be used in planning member relations and education programs.

Opportunities for Feedback

Communication is a two-way street. To be successful, information should flow from management to the members and from the members to management. A system that does not allow for feedback is merely an information dissemination system, not a true communications network. All effective cooperative communications programs have ample opportunities for member feedback through personal contact with employees, written letters and other messages, and participation in cooperative programs.

WHAT TO COMMUNICATE

An important step in any communications program is the amount and type of information to give members. A sample overall criterion is: Will dissemination of this information help attain the objectives and goals of the cooperative and be within the policy guidelines? If the answer is positive, a program may be developed to transmit the information to the members. Since the amount of information management wishes to communicate will usually be greater than existing communications staffs and budgets can handle, priorities will be needed.

One procedure is to list all the types and kinds of information which would be helpful to members. The list could then be used as a basis for measuring the members' information level. Educational efforts could be increased in deficient areas. This approach is time consuming, costly, and may not give the answers needed by many cooperatives.

A simpler approach takes into account other sources of information and poses discerning questions in several general areas - cooperative, technical and economic.

Cooperative Information

Do members know and understand what a cooperative is and what the objectives, goals, policies, and philosophies of their cooperative are? Do they know what legislation enables cooperatives to organize and operate, and also what restraints are imposed upon cooperatives?

Are they familiar with the organizational struc-

ture and the operation of their cooperative? Do they know where to get information and where to take their problems? Do members understand how they are represented on the board of directors?

Do they recognize the types of firms competing with the cooperative? Are they aware of the market structure and relative power position of their organization? Do members realize the necessary requirements to provide a price or service advantage to members and how these advantages can be obtained or maintained? Do they appreciate the marketing system for their products - the amount of processing needed, the wholesale and retail outlets, the margins and profits in the system?

Do members understand the cooperative's financial statement, the policy on retained earnings, and the taxes paid by the cooperative? Do they know the amount of information they should expect from the cooperative so they can be informed without helping competitors. Are they familiar with the background and history of their cooperative, and the different member programs offered by the cooperative?

Technical Information

Are members getting correct information on varieties, expected yields, fertilizer levels, and recommended pesticides? To what extent are members dependent on the cooperative as a source of technical information readily available from other sources? Can arrangements be made with other agencies to distribute their technical information and thereby reduce distribution costs? Are members currently using their resources efficiently? Are the products produced by members as high quality and uniform as those of nonmembers? Are the members fully informed about price levels, gross margins, expenses product price, and total price (cash, pool, refunds)?

Economic Information

What about the business climate in general? Do the members understand the effects of business trends on the cooperative? Are they aware of general government policies and regulations that could affect their business? Is this information readily available elsewhere or should the cooperative provide it?

Do members have a ready source of general information about changes in the industry in which the cooperative operates - dairy, fertilizer, farm machinery, etc.? Can the cooperative rapidly communicate specific industry changes to the members?

As for consumer information, do the members understand how to be good shoppers? Are they aware of stores where cooperative labeled products are available?

COMMUNICATIONS METHODS

There are many ways to communicate with people. These include personal contact, written messages, and electronic communication such as radio and TV.

The most effective form of communication is the one-to-one *personal contact.* Small group discussions are slightly less effective. In both cases there is opportunity for instant feedback and reaction. Even in moderate sized lecture-discussions there is some opportunity for instant feedback. In most cooperatives, personal contact is limited to that between employees and members. The general manager and his staff are often located many miles away.

As cooperatives have grown larger and the distance between member and management increased, other types of communication have been used (see Figure 7). One of the most effective is the *newsletter.* Newsletters may be a single mineographed sheet or a magazine of several pages. In a number of research studies, members have listed the newsletter as their most important source of information about their cooperative. Whatever the form of the newsletter, all information must be clearly and concisely presented, interest the members, and be sent out regularly.

A few cooperatives are effectively using *TV and movies* in their communications programs. Several large regional organizations have filmed parts of the annual meeting for later presentation to members who could not attend. Another approach is to transmit the annual meeting on closed circuit TV to different geographic areas for members to view directly.

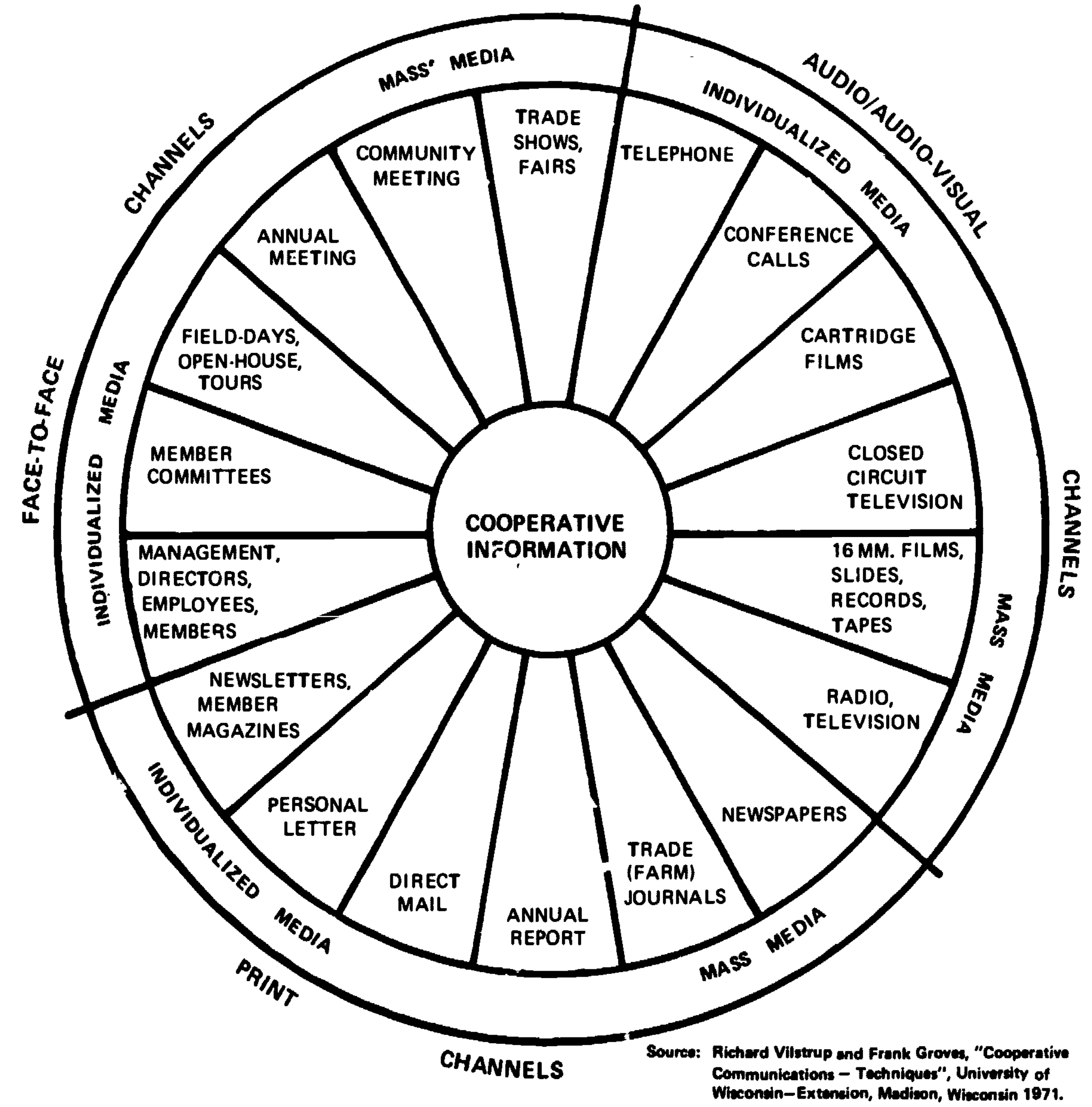
Some cooperatives have made good use of *mass media* - radio, TV, and newspapers - in their communications programs. Mass media can (1) keep the public informed about the cooperative; (2) keep members aware of what the cooperative is doing; and (3) build up the interest of nonmembers.

Meetings directed toward local audiences are often more effective than the large annual meeting. Most cooperatives that cover a fairly large area divide their territory geographically. Each division usually has its own annual district meet-

ing. These meetings present a good opportunity for members to meet with management, give feedback directly to the management, and to become well informed about their association.

Employees can be one of the most effective groups in any cooperative communications program. In most cooperatives, employees often make the greatest impression on members. This is true because the member usually has frequent person-to-person contact with one or more employees. It can be the checkout girl in the food department, the man who pumps the gas, the clerk in the credit union, the milk hauler or fieldman, the tank truck driver, or the general manager who is "my cooperative" in the eyes of the individual member.

Consequently, educating employees with cooperative as well as technical information cannot be overemphasized. Every organization needs good employees. Cooperatives need even better employees since employees should understand cooperative principles and practices.



Source: Richard Vilstrup and Frank Groves, "Cooperative Communications – Techniques", University of Wisconsin–Extension, Madison, Wisconsin 1971.

Figure 7. Channels of Cooperative Information

WHEN TO COMMUNICATE

The board, management, and communications staff are caught between opposite positions in disseminating information to members. On the one hand, members need current information about the cooperative and impending policy decisions. On the other hand, information that could help competitors should remain with the board and management until final decisions are made.

While each cooperative has to decide what information to release, two guidelines may help:

1. If the information will help competitors, keep it with the board, management, and key staff.
2. The more controversial an issue is, the greater the need for factual and reliable information from the cooperative.

Adding a new product or changing store hours may require only a routine announcement in the cooperative's newsletter. However, a proposed merger, closing of existing facilities, or a change in the way members are represented may require much additional information before the issue is resolved. To minimize controversy and insure a smooth transition, those affected by the change need facts to dispel rumors and fears. A rule of thumb could be to provide members with enough information tc make intelligent decisions.

KINDS OF COOPERATIVES – CLASSIFICATION BY STRUCTURE

Cooperatives could be classified in many different ways because their characteristics differ so much. If you were to classify people, you could use many different bases - height, weight, color of hair, pigmentation, income, occupation, religious affiliation, and many others. So it is with cooperatives. The purpose in mind, no doubt, becomes the criterion as to which basis to use. An outline of the principal types of cooperatives follows.

I. By Size

A. Volume of business done - sales, amount of loans made, etc.
B. Number of members or patrons served.

II. By Area Served (where members reside - not where sales are made)

A. Local - market area about a single community.
B. Regional - large area of one state or of several states.
C. National - members residing in many states.
D. International - members in two or more countries.

III. By Type of Membership Affiliation

A. Locals - persons or firms of a single locality are members.
B. Centralized associations - persons residing in an area much larger than a small locality such as a state or region.
C. Federated -

1. Local associations are members of central associations.
2. Central associations are affiliated with national cooperatives.

D. Hybrid type - individuals and locals are members of the central company.

IV. By Legal Status

A. Unincorporated - a multiple partnership arrangement.
B. Incorporated - a legal entity created by law or sanctioned by it.

V. By Financial Arrangement

A. Capital Stock - shares of common stock and sometimes also preferred stock are issued.
B. Nonstock or Membership Type - no stock issued; membership is nonassignable and not transferable to others.

VI. By "Who" Constitutes the Membership

A. Producers - such as farmers, fishermen, foresters who have products to sell or supplies to purchase.
B. Consumers - purchasers of consumption goods or services.
C. Workingmen - self-employed; operators of their own plants.
D. Businessmen - to purchase merchandise for sale and/or buy supplies for use in their private businesses.

VII. By Principal Functions or Business Activities

A. Production associations.
B. Processing associations.
C. Marketing associations.
D. Purchasing associations.
E. Service associations.

Each cooperative may fall under several classifications. Thus, the Great Lakes Cooperative Wool Growers' Association is a producers' marketing association, marketing wool for its members. It is a centralized, regional, incorporated association, nonstock, single commodity type, which pools its patrons' wool and returns patronage refunds to its members and nonmembers.

CLASSIFICATION BY TYPE OF MEMBERSHIP

Local Associations

Of all the types of cooperatives, the local association is the most common. There are many among the producers of almost every type of agricultural commodity that is marketed cooperatively. Local associations are also the grass roots organization of cooperative purchasing as-

sociations, credit unions, rural electric cooperatives, local telephone cooperatives, and many other organized associations.

A local association generally serves a relatively small number, all of whom have similar interests. This may be as few as 20 to 30 members of a cooperative cheese factory to as many as 500 or 1000 members or more of a credit union. These members usually live within a relatively small area, or, as in a credit union, may be employed by the same firm. Membership control runs from the individual to the local. Members elect a board of directors and the directors hire a manager to run the association.

A local marketing association is primarily concerned with the efficient assembling, processing, grading, and shipping of farm products. The principal function of dairy plants is to process milk and cream into marketable products such as butter, milk powder, and cheese. A local association is not engaged in a comprehensive sales program; does very little advertising, if any; and ordinarily does not store members' products to try to get higher market prices through delayed sales. It is ordinarily financed by members themselves and through loans. It is strictly locally owned and controlled, but may join other local groups to form an overhead organization such as the federated sales association. Generally, products of nonmembers are handled as well as those of members. The products are ordinarily delivered to the local plant, local warehouse, or local shipping point to be received, weighed, graded, inspected, and prepared for shipment. Members might receive increased services or higher net returns, depending on the success of the local association.

Farm supply or urban consumers' cooperatives may realize gains through lower net cost, higher quality goods, or superior services. In **production credit associations**, loans are made at competitive rates; and in **rural electric** cooperatives, members control the electric service.

The Federation

One type of organization in the central market is the federation. The purpose of a **marketing** federation is to sell the products for a number of local associations. It renders marketing services connected with the handling and selling of goods produced by the members of the local association for sales in central or terminal markets. A **purchasing** federation serves as a wholesale buying company for the local retail cooperatives affiliated with the central.

The membership of a federation consists of local cooperatives. Sometimes locals are members of district associations or exchanges, and these in turn are members of the central federation. The locals' members, as mentioned before, are farmers in the community which the locals serve. Figure 8 shows graphically a federated organization.

Local associations own and control the central organization of a federation and provide part or all of the capital needed to run it. The locals elect a board of directors who, in turn, elect officers from their number. The board also hires the manager and, frequently, other key employees.

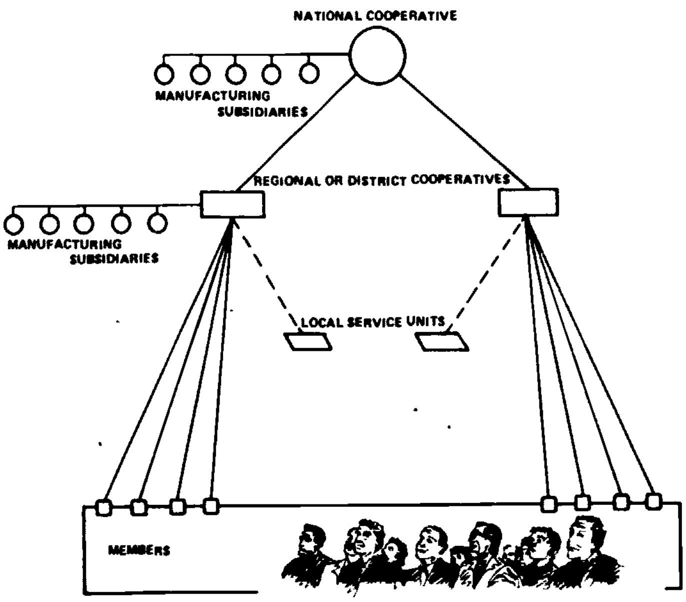
For marketing cooperatives, the central organization operates primarily in central or terminal markets as a wholesale house. It is an intermediary between the country markets and the markets further down the marketing channel (these may be purchasing departments of chain stores, central processing plants, jobbing and distributing firms, and large-scale retail units). For farm supply and consumer cooperatives, it serves as a wholesale purchasing unit in the central markets standing between the manufacturer and the local retail cooperatives. Land O'Lakes, Inc. is a federation for marketing dairy and other products, and the Farmers' Union Central Exchange (St. Paul, Minnesota) is a federation of purchasing associations.

The products which the local association has to sell are shipped by the local to the market designated by the central sales manager. Ordinarily, local associations agree by contract to sell all of their produce through the federation although there are many exceptions to this.

A federation or central association may provide physical facilities, such as processing and packing plants, warehouses, and sales rooms, in order to handle the products wholesale. Technically, the headquarters of the federation are comparable to the business agencies found in the wholesale market for agricultural commodities or for farm and consumer supplies.

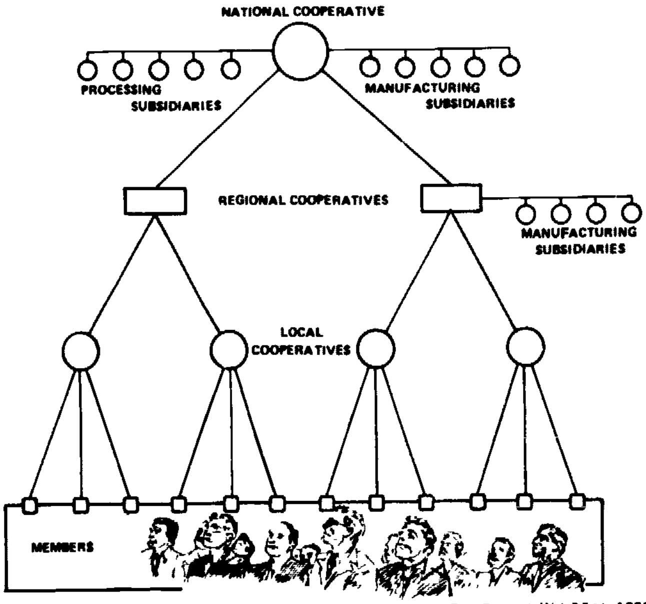
The marketing federation may act as an ordinary wholesale receiver, jobber, or broker in the wholesale produce trade through its own sales and distributing departments; or it may limit selling to established processors, jobbers, or through brokers. It may also grade and standardize the products, establish brands, advertise, and sell in different markets in competition with other handlers. In addition to establishing a price policy and a sales program, the federation often finances local associations by permitting the local to draw sight drafts against the federation (receive advance payment) at the

CENTRALIZED COOPERATIVE



STRUCTURE OF A CENTRALIZED COOPERATIVE. PERSONS ARE MEMBERS OF THE REGIONAL OR DISTRICT COOPERATIVE – THE REGIONALS MAY BE AFFILIATED WITH AND OPERATE A NATIONAL SUPPLY OR MARKETING ORGANIZATIONS. THE LOCAL SERVICE UNITS OR RECEIVING STATIONS ARE OWNED AND OPERATED BY THE REGIONAL COOPERATIVE – NOT BY THE MEMBERS RESIDING IN THE IMMEDIATE AREA.

FEDERATED COOPERATIVE



STRUCTURE OF A FEDERATED COOPERATIVE. PERSONS HAVE MEMBERSHIP IN LOCAL ASSOCIATIONS – THE LOCALS JOIN WITH ONE ANOTHER TO ESTABLISH REGIONAL OR DISTRICT COOPERATIVES WHICH IN A WHOLESALE CAPACITY SERVE THE LOCALS – REGIONALS MAY GET TOGETHER TO ORGANIZE AND OPERATE NATIONAL SUPPLY OR MARKETING COMPANIES: BOTH THE REGIONALS AND NATIONALS MAY OPERATE PROCESSING, MANUFACTURING, REFINING, AND OTHER PLANTS, GENERALLY AS SUBSIDIARY COMPANIES.

Figure 8. Structures of Centralized and Federated Cooperatives [1]

[1] Based on Figure 1 in Farmer Cooperative Service Bulletin No. 1 page 12, "Farmer Cooperatives in the United States", U.S.D.A., Washington, D. C. 1965.

time of delivery of the products.

Usually a federation is established after a number of local associations already in existence have voluntarily agreed to set up a central selling agency. However, many times successful federations have been conceived and set up at the same time local associations were organized. This has been the case several times when general farm organizations helped set up a cooperative marketing system which included both local and central sales organizations. After the federation has been established, it may organize new local associations which affiliate with it after their organization.

The Centralized Association

Another type of organization in the central market, in addition to the federation, is the centralized association. The centralized association is essentially a greatly expanded local association (see Figure 8). The differences between it and a federation are mainly in organization and relationship to its members. Around 1920, certain leaders of cooperative marketing in the United States advocated strongly the centralized type of association. Centralized associations, as the name suggests, centralize into one organization the marketing activities of a large number of farmers who reside over a widespread area. The farmer belongs directly to the central organization which may have its headquarters far from where the farmer lives.

The farmer producer has a marketing contract, if such is used, with the central association rather than with a local association as in the case of the federated type. Only one contract is used compared to two or three in federations.

The centralized association may provide physical facilities for the local assembling, grading, packing, and shipping of the members' products, but such local plants or warehouses are controlled by the officers of the central headquarters, rather than by the farmers in the community where such local plant is located. (The Great Lakes Cooperative Wool Growers' Association, Waukesha, Wisconsin, is an example of a centralized cooperative for marketing wool.)

The products which the farmer has to sell are ordinarily delivered to a local warehouse or processing plant selected and operated by the central organization. These products are sold by the headquarters of the centralized association.

So that local farmers may control and have jurisdiction over a large centralized cooperative, the entire membership is districted. Each district elects delegates to represent it at the cooperative's annual meeting. The delegates elect a board of directors who have charge of management. No autonomous local associations exist in this type of association.

Centralized associations are more common among agricultural marketing associations than among farm supply and consumers' (purchasing) cooperatives which are organized as local cooperative associations. To obtain the services which a centralized association may provide, local purchasing cooperatives organize into federations with central offices at terminal markets. Some consumers' cooperatives in large cities (as in London, England) have so large a membership residing throughout the city that they have many branch stores to serve their members; but these are owned, run, and controlled by the one city-wide organization. Such set-up is for all practical purposes a centralized cooperative and is the exception rather than the rule.

Combination Form of Organization

Some cooperatives combine certain features of centralized associations and of federations. In these cases, the membership of the central association consists of both local cooperatives (as in a federation) and of individuals (as in a centralized type). The locals are independent and run their own affairs. Both locals and individuals own stock in the central association, and the bylaws provide for representative voting.

Local rail shipping associations were once important for shipping livestock to central markets. No single farmer ordinarily had sufficient stock to ship a full rail car (except some ranchers and large cattle and sheep feeders) so the local association provided essentially an assembly and shipping service.

However, since the 1920's truck hauling has increased, sales to buying stations has become more common, and local auction sales' facilities have been made available. As more interior packers and concentration yards appeared in producer territories, more and more farmers could truck directly to them and to their cooperative sales associations without requiring the services of a local association. Other producers converted their associations from rail shipping to truck shipping and continued their affiliation with the central sales association. The latter now also has individual members unaffiliated with any local. Thus, a combination form of organization developed in line with major changes in livestock production, hauling, and selling. The Equity Cooperative Livestock Sales Association of Baraboo, Wisconsin is an example of this. Such structural organization is shown graphically in Figure 9.

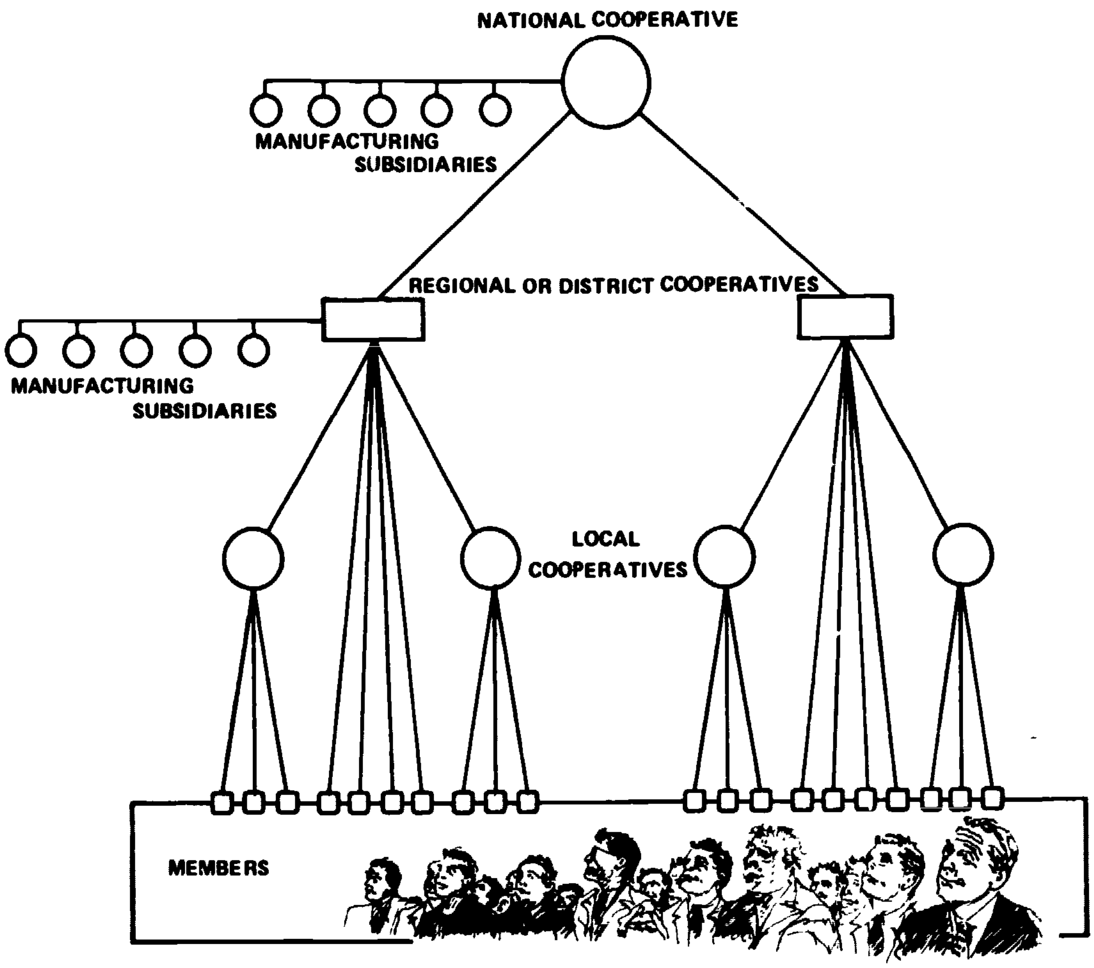


Figure 9. Structure of a Combination Type Cooperative. In This Structural Arrangement Some Members Belong to Local Associations Which in Turn are Affiliated With a Regional Cooperative While Other Members are Directly Affiliated With the Regional Central Organization. This Structure Has Aspects of a Federated Cooperative and a Centralized Cooperative.

National Associations

During 1929 to 1932, the Federal Farm Board tried to organize national marketing associations because of the national character of the markets for most farm products. Each national association brought together, into one nationwide organization, cooperatives which were handling similar products, but were serving restricted areas. Thus the Texas cattleman is in the same organization with the Wisconsin livestock producer - the National Livestock Producers' Association.

Members of nationals are either federated or centralized associations already set up to market the products of their respective members in limited producing areas. Ordinarily, a contract is signed between the national association and its members. The national performs certain services which relate to sales policies, pricing policies, membership relations, trade relations, publicity, research, and general problems. The National Wool Marketing Corporation, Boston, Massachusetts is such an association.

CLASSIFICATION BY FUNCTIONS

In the preceding pages, cooperatives were classified by type of membership. Another worthwhile classification is based on the functions of the cooperatives. The classification by functions followed by examples is shown to provide a general perspective of the five functional classifications. Many cooperatives are multifunctional today and could, therefore, be classified under several of the headings.

Classification by Function

I. **Production** Associations - employee owned and run - self-employment.

   A. In the extractive industries.
      Cooperative farms, coal mines, forests, fisheries.
      Example, kibbutzim in Israel.

   B. In secondary and tertiary industries.
      Cooperative factories (plywood, cigar, glove).
      Example, 24 cooperative plywood factories in the United States on west coast in 1968.

II. **Processing** Associations - principal emphasis upon processing products.

   A. Local cooperative processing plants.
      Cheese factories, cotton gins, creameries

   B. Central processing plants operated by one or several cooperatives.
      Example, cooperative slaughtering plants at Denison and Ida Grove, Iowa and Garden City, Kansas.

III. **Sales** Associations (or Marketing Associations) - performing numerous marketing functions or only a limited number.

   A. Commodity marketing associations - performing many functions.
      Example, Land O'Lakes, Inc., Golden Guernsey Dairy Cooperative of Milwaukee.

   B. Collective bargaining associations - essentially bargaining only (price, sales terms, etc.).
      Example, Milwaukee Cooperative Milk Producers.

   C. Cooperative commission companies (or sales agencies) - only a commission service.
      Example, Equity Cooperative Livestock Sales Association of Baraboo, Wisconsin.

IV. **Purchasing** Associations - through which patrons purchase goods or supplies.

   A Farmers, fishermen, and other producers' purchasing associations dealing in *production* goods.
      Example, farm supply cooperatives at retail and wholesale levels.

   B. Consumers' cooperatives dealing in *consumers'* goods
      Food, fuel, clothing, pharmaceuticals, books, meals.
      Example, Consumers' Cooperative Association of Eau Claire, Wisconsin.

   C. *Businessmen's* purchasing associations

      1. Production goods for personal use in their stores - shopping carts, paper bags, cash registers, and other store supplies bought cooperatively.
      2. Groceries and other merchandise for resale purposes carried as inventory stocks.
         Example, Certified Grocers' Cooperative of Madison, Wisconsin - a cooperatively operated wholesale, owned and operated by nearly 200 private grocery stores in southern Wisconsin and northern Illinois.

V. **Service** Associations - essentially provide services rather than handle products.

   A. For farmers primarily:

      1. Finance associations - Production Credit Associations, Federal Land Bank Associations.
      2. Insurance associations and insurance brokerage cooperatives.
         Example, Farmers' Mutual Insurance Companies.
      3. Irrigation cooperatives
      4. Rural Electric cooperatives (REC).
      5. Rural telephone cooperatives (RTC).
      6. Cooperative transportation and trucking associations.
      7. Artificial breeding associations.
      8. Dairy herd improvement and cooperative farm management associations.

   B. For urban consumers primarily:

      1. Cooperative housing associations.
      2. Financing associations - credit unions.

   C. For people generally, urban or rural:

      1. Medical, pharmaceutical, optical, and hospital associations.
      2. Recreation cooperatives.

3. Burial associations
4. Auditing cooperatives.
5. Miscellaneous cooperative service companies.

D For Businessmen:

1. News collection and distribution - Associated Press.
2. Clearing corporations for banks and commodity exchanges.
3. Realtors' multiple listing agencies.
4. Credit bureaus operated by merchants.
5. Florists telegraphic delivery service agency.
6. Transport and delivery services.

Production Associations

There are very few workingmen's cooperative production associations in the United States. Such self-employment cooperatives were once advocated as the principal form of organization for workers (Robert Owen, Charles Fourier, Louis LaBlanc, John Stuart Mill). This has not happened. Laborers have organized unions to bargain with plant owners and managers rather than to put their money in plant ownership and shoulder the responsibilities of plant management. The operation of 24 cooperative plywood factories by their employees in Washington, Oregon, and California in the mid-sixties is an exception, however. Despite the success of the first plywood cooperative in 1921, no other plywood cooperatives were organized for almost 20 years. Three were started in 1939-41 and 21 during 1949-56.

In Israel, the **kibbutzim** are modern day illustrations of cooperative farming and communal living. A kibbutz is an agricultural village - a voluntary collective settlement or commune - in which all property, with minor exceptions, is collectively owned and in which work as well as living arrangements, including the rearing of children, is to a great extent collectivized. Over 90 percent of the land is nationalized and leased for life to farmers. There is no private property - all is held in common except personal possessions. All members are entirely supported by the community. In 1970 there were about 250 kibbutzim or collective settlements with a total population of about 100,000.

In addition, there were about 300 **moshavim** with a population of 110,000. The moshav is a cooperative settlement - not a collective - established originally by disenchanted members of the first kibbutzim. It has individual land holdings; privately owned buildings, tools, and implements; joint ownership of large agricultural machinery: and considerable cooperation in the sale of farm products and purchase of farm supplies. The basic unit in the moshav is the working family - in the kibbutz, it is the collective body of the entire commune. The moshav stresses mutual help: the kibbutz, collective responsibility.

A halfway development between a kibbutz and a moshav is the **moshav shitufi** - a combination of communal farming with private family life. Each family maintains its private home life, but, as in the kibbutz, the farm is operated cooperatively.

Besides these, many Arab villages and about 100 freehold Jewish farming villages in Israel are largely built on privately owned land, operated as conventional farming establishments, and are often served by cooperative marketing and purchasing cooperatives.

Other cooperatively owned farms are found in varying but usually small numbers in Pakistan, Mexico (ejidos), Canada, Italy, India, Cyprus, and Spain. These cooperative farms differ materially from the government-owned and-operated collectives in Russia and China where thousands of farm families are involuntarily forced into communes without property rights in the collective, except for small parcels of ground individually tilled and cared for.

Processing Associations

In processing cooperatives, the main emphasis is on converting raw materials into finished or semifinished form even though these processed products also need to be sold. For this reason, skilled processing technicians are usually hired to run the plants. Thus, cheese factories ordinarily have skilled and licensed cheesemakers as general managers rather than marketing specialists. Butter factories hire licensed butter makers as managers. As companies get larger and perhaps more diversified (Lake to Lake Dairy Cooperative, Manitowoc, Wisconsin), a general manager with special skill in marketing may be as important to the firm as a skilled and licensed processing technician.

Sales or Marketing Associations

Agricultural marketing cooperatives are among the most numerous of farmer cooperatives. They vary greatly as to the number and kinds of functions they perform. Some receive, grade, pack, label, brand, store, advertise, sell, and merchandise products. Others do not physically handle the products but simply bargain over prices and terms of sale. Still others perform

a very limited function such as selling at auction or on a commission basis the products farmers consign to them.

Purchasing Associations

Purchasing associations fall into three categories. *Farm supply* cooperatives deal primarily in goods to help farm production. *Consumers'* cooperatives handle consumption goods of all kinds for ultimate consumers. And *businessmen's* cooperatives sell merchandise wholesale to retailers to sell in their stores. Businessmen's cooperatives in the wholesale grocery, drug, hardware, automotive supplies, furniture and furnishings, shoes, lumber and building materials, bakery, and fish and seafood trade have increased sales extensively during the past decades. Cooperative grocery wholesalers alone did more than 7.5 billion dollars business in 1969. Other businessmen's cooperatives purchase collectively supplies and raw materials needed to operate their plants just as farmers look to their supply cooperatives for production goods.

Service Associations

Service cooperatives vary both as to the kind of service provided and as to the persons primarily involved. The oldest cooperative in the United States was an insurance society. Today cooperatives provide many different kinds of insurance as well as financial service, electric service, cooperative housing, telephone service, auditing, pharmaceutical, transportation, and news collection and distribution, to name a few. Some are of principal value to farmers, others to urban residents, and some to businessmen.

THE LEGAL BASIS FOR COOPERATIVES

Cooperatives were organized in this country as well as abroad before the enactment of enabling legislation. The Rochdalians in England were a success for eight years before the first cooperative law was passed. This law, the Industrial and Provident Societies Act, was the first cooperative law of any country and was enacted in England in 1852. It legalized business organizations operated by and for its member patrons. Since that time many countries, states, and provinces have enacted legislation permitting cooperatives to function as business entities.

The development of legislation permitting and facilitating the organization and operation of cooperatives was relatively slow by the federal government and in most states. Now, however, cooperatives in all 50 states operate under explicit federal and state statutes.

Four considerations are important in describing the rights and powers that a cooperative possesses in its relations with the business world and with its members. Cooperatives are subject to:

- federal and state laws.
- regulations issued under these laws.
- court decisions.
- bylaws, and contracts between the cooperative and its members.

Laws relating to cooperatives are important for they provide a legal basis, as distinct from an economic or social basis, for cooperative organization and operation. They permit incorporation, especially under state enabling acts; spell out the rules and guidelines that associations must follow; and promote cooperatives by specifically authorizing their existence. They also relieve them from certain prohibitive restrictions which other laws may call for.

Before cooperative corporation laws were enacted, associations had three alternatives. They could operate as unincorporated associations with all the risks which such multiple partnership arrangement involved. They could incorporate under laws legalizing nonprofit associations such as fraternal groups, which likewise wasn't very satisfactory. Or they could incorporate under general corporation laws governing ordinary commercial business corporations. The latter, of course, was quite unsatisfactory since these laws fail to recognize the specific character of a cooperative and its nonprofit member-user orientation.

FEDERAL LAWS

In addition to the fact that status as an unincorporated association or as a corporation under the general corporation laws of a state was highly unsatisfactory, the federal and state antitrust laws threatened the very existence of such collective aggregations as cooperatives.

The original **Sherman Antitrust Act of 1890** contained no reference to cooperatives. It provided that *every* contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations was illegal. The threat of a lawsuit by competitors on the grounds that the mere act of combining to conduct business cooperatively was in restraint of trade and, therefore, illegal jeopardized the standing of farmers' marketing associations.

During 1890-1910, officers and directors of marketing cooperatives in five states were indicted under state antitrust laws, and in one state under the Sherman law. In 1895, an Illinois cooperative milk association sued to recover payment for milk sold and delivered, but was denied payment on the grounds that the association was illegal under the Illinois antitrust law, being considered a combination in restraint of trade by the court. In 1897, the Texas antitrust law was held unconstitutional since it exempted agriculture. In 1902, the Illinois antitrust law, similar to that in Texas, was also held unconstitutional in the famous Connolly case for much the same reason.

The precarious position of cooperatives was partially corrected at the federal level with the passage of the **Clayton Amendment (1914)**. This provided, among other things, that agricultural or horticultural organizations instituted for mutual help and *not having capital stock* nor conducted for profit were not illegal combinations in restraint of trade under the antitrust laws. This amendment exempted the nonstock, nonprofit, cooperative

marketing associations, but did not clarify the status of the capital stock associations.

Agitation, spearheaded by milk-marketing cooperatives that had indictments brought against them, naturally arose for federal legislation to also exempt capital stock associations - particularly since numerous states had already passed special laws legalizing such cooperatives and excluding them from state antitrust laws. Public policy was changing to favor farmers' cooperative associations as indicated by state enabling acts and favorable court decisions.

Capper-Volstead Act of 1922

The Capper-Volstead Act affirmed the right of farmers to unite and market their agricultural products cooperatively without violating the antitrust laws. It made clear that eliminating competition between agricultural producers by their collective action in a marketing cooperative in and of itself did not constitute a violation of the Sherman Act and its amendments.

The principal provisions of the Capper-Volstead Act are:

1. It authorizes association of producers of agricultural products.
2. The members of such association must be "engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers."
3. The cooperative may collectively process, prepare for market, handle, and market in interstate and foreign commerce.
4. Cooperatives must operate for the mutual benefit of the members as producers.
5. One cooperative may join with others to have marketing agencies in common, i.e., federated associations are permissible.
6. The cooperative may be incorporated or unincorporated.
7. Cooperatives may have marketing contracts with their members.
8. They may be organized with or without capital stock.
9. Cooperatives must conform to one or both of the following requirements:
   - No member of the association may have more than one vote, <u>or</u>
   - The association may not pay dividends on stock or membership capital in excess of 8 percent per annum.
10. The cooperative must not deal in the products of nonmembers greater in value than those handled by it for members.
11. If the Secretary of Agriculture believes that an association monopolizes or restrains trade so that the price of any agricultural product is unduly enhanced, he may start an administrative proceeding against the association. He can order the cooperative to cease and desist if he finds that the facts bear out his suspicion. And if the cooperative continues to monopolize or restrain trade, the Attorney General may start court proceedings to enforce such order.

This law has not been amended during the past 50 years (up to 1972). Proposals for additions and change have been suggested, but no congressional action has been taken. Since some persons seem to read more into the Act than is actually there, it may be well to list some things it does *not* do.

- It does not regulate agricultural production nor establish marketing quotas.
- It does not prevent cooperatives from monopolizing the marketing of an entire crop through internal growth. (The Clayton Act may prevent such monopolization if done via merger or through external growth.)
- It does not give cooperatives special immunity from antitrust or other laws which would not apply to other business firms under similar situations. (Congress did not intend to exempt cooperatives completely from the antitrust laws nor to exclusively empower the Secretary of Agriculture to supervise their conduct. This was brought out in a number of court cases decided by the Supreme Court, Appeals Court, and the lower courts.)
- It does not apply to purchasing or service associations, but is exclusively restricted to farmers' marketing cooperatives.
- It does not prevent price increases, but undue price rises might invite prohibitory action by the Secretary of Agriculture and/or the Justice Department.
- It does not enable cooperatives to incorporate under it.

- It does not permit members to buy products and then sell them through the association as dealers or speculators - it is restricted to members *as producers* of the products marketed.
- It does not automatically grant eligibility to borrow from Banks for Cooperatives. These have their own criteria for making loans.
- It does not require cooperatives to incorporate to qualify under the Act.
- It does not grant exemption from payment of federal or state income taxes.
- It does not prevent pooling of products, expenses, sales receipts, and net earnings.

Other Federal Laws

Federal laws that mention cooperatives may relate to antitrust action, organizing cooperatives, financing operations, taxation of net income, regulatory measures that call for special treatment of cooperatives, and to miscellaneous aspects of cooperatives. These categories and the laws pertaining thereto follow:

- Antitrust action and restraint of competition.
  Clayton Act, 1914; Capper-Volstead Act, 1922; Robinson-Patman Act, 1936 (relating to price discrimination).
- Organization
  Clayton, 1914; Capper-Volstead Act, 1922; Cooperative Marketing Act, 1926; Agricultural Marketing Act, 1929; Fishery Cooperative Marketing Act, 1934; Rural Electrification Act, 1936; District of Columbia Consumers' Cooperative Act, 1940.
- Financing and credit facilities
  Federal Farm Loan Act, 1916; War Finance Corporation Act, 1918 and 1921; Federal Intermediate Credit Act, 1923; Agricultural Marketing Act, 1929; Farm Credit Act, 1933; Federal Credit Union Act, 1934; Rural Electrification Act, 1936; Federal Housing Act, 1948; Farm Credit Act, 1953.
- Taxation of net savings
  War Revenue Act, 1898; Revenue Acts and their amendments from 1913 through the Revenue Act of 1962.
- Regulatory measures
  Packers and Stockyards Act, 1921; Future Trading Act, 1921; Grain Futures Act, 1922 (title changed to Commodity Exchange Act in 1936); Motor Carrier Act, 1935; Bituminous Coal Conservation Act, 1935; Robinson-Patman Act, 1935; Agricultural Marketing Agreement Act, 1937.
- Miscellaneous aspects
  Agricultural Adjustment Act, 1938 and its amendments; (a number of references to cooperatives); appropriation acts that called for research and extension activities among farmer cooperatives; Tennessee Valley Authority Act, 1933 (preferential treatment of cooperatives in sale of surplus power - also authorized in acts authorizing the Bonneville Dam and Fort Peck projects).

Generally, cooperatives are chartered or incorporated under state enabling acts However, federal land bank associations (FLBA's), production credit associations (PCA's), and the Banks for Cooperatives are chartered only under federal laws. Credit unions are chartered either under the state or federal laws. (In mid-1970 there were 13,171 federally chartered and 10,726 state chartered credit unions in the United States.) Consumers' cooperatives in the states may be chartered under their respective state cooperative laws, or, as the consumer cooperatives in the District of Columbia do, under the District of Columbia Consumers' Cooperative Act of 1940.

The federal laws which affect cooperatives with a brief descriptive note about each follow.

<u>Federal Legislation Affecting Cooperatives</u>

1890 *Sherman Antitrust Act* - combinations in restraint of trade and conspiracies were declared illegal.

1898 *War Revenue Act of 1898* - first tax law to specifically exclude farmers' cooperatives (the stamp tax did not apply to farmers' local cooperatives).

1909 *Corporation Tax Statute*, Section 38 - exempted agricultural and horticultural associations from income tax.

1913 *Income Tax Statute* - exemption granted to "labor, agricultural, or horticultural associations."

1914 *Clayton Amendment* - amended the Sherman Antitrust Act and legalized nonstock agricultural or horticultural cooperatives.

1916 *Revenue Acts of 1916, 1918, 1921, and 1926* - Act of 1916 and 1918 exempted marketing cooperatives serving as sales agents from federal tax. The 1921 Act

also exempted farm supply cooperatives. The 1926 Act eliminated the requirement that cooperatives serve only as agents for its members.

1916 *Federal Farm Loan Act* - created federal land banks and federal land bank associations (the latter were formerly called national farm loan associations, NFLA's) to make long-term mortgage loans to farmers.

1918 *War Finance Corporation Act* - (as amended in 1921) - could make loans to farmers' cooperatives.

1922 *Capper-Volstead Act* - basic federal enabling act for farmers' marketing cooperatives of either capital stock or nonstock type.

1923 *Federal Intermediate Credit Act* - provided for the 12 Intermediate Credit Banks. These banks do not make loans to cooperatives now as they originally did but sell their debenture bonds to the investing public to provide funds for the PCA's and some Banks for Cooperatives.

1926 *Cooperative Marketing Act* - created the division of cooperative marketing in the United States Department of Agriculture for research, education, and service work with farmer cooperatives. Today the Farmer Cooperative Service has replaced the earlier Division of Cooperative Marketing.

1929 *Agricultural Marketing Act* - provided for a Federal Farm Board and a $500 million revolving fund to make loans to cooperatives, stabilize farm prices, and assist cooperatives generally.

1933 *Farm Credit Act* - created 12 regional and 1 central Bank for Cooperatives to make loans to cooperatives; and established Production Credit Associations.

1934 *Fishery Cooperative Marketing Act* - legalized fishermen's cooperatives. Comparable to the Capper-Volstead Act except applies to marketing fish and aquatic products. Administered by the Secretary of Interior.

1934 *Federal Credit Union Act* - to charter credit unions under federal law.

1936 *Rural Electrification Act* - established the REA, a loaning agency to rural electric cooperatives, rural telephone companies (Oct. 1949 amendment to REA Act of 1936), and other utilities serving rural areas.

1940 *District of Columbia Consumers' Cooperative Act* - allowed consumers' cooperatives in the District or elsewhere to incorporate.

1962 *Revenue Act of 1962, 1966* - most recent tax law to apply to cooperatives. Exempt cooperatives must pay at least 20 percent of net savings in cash to members and obtain "consent" from member-patrons for the remainder. In 1966, Congress amended Sub-chapter T of the 1962 Act to conform the tax treatment of "per unit retains" excluded from the 1962 Act to that of patronage refunds.

1970 *Act creating a National Credit Union Share Insurance Fund* - to insure share accounts of members of local credit unions up to $20,000 per account.

Acts that refer to cooperatives, exempt them from their provisions, or otherwise modify their application to cooperatives

1921 *Packers and Stockyards Act* - refunds of cooperatives are not rebates which are prohibited by the Act.

1922 *Grain Futures Act* - replaced the 1921 Future Trading Act and since 1936 is called Commodity Exchange Act Patronage refunds were not the same as rebates and could be made by cooperatives to patrons. Also an exchange could not deny membership to an organization because it was a cooperative.

1927 *Act to Prevent Discrimination Against Cooperative Associations* - by boards of trade. Membership and trading privileges could not be denied farmers' cooperatives even though they declared patronage refunds as long as other rules, regulations, and qualifications for membership were met.

1935 *Motor Carrier Act* - inapplicable to motor vehicles controlled and operated by farmer cooperatives.

1935 *Bituminous Coal Conservation Act* - repealed but replaced by the 1937 Act. It did not prohibit sales to nor through farmers' cooperatives that did or did not declare patronage refunds.

1936 *Robinson-Patman Act* - cooperatives can make patronage refunds to customers and not be guilty of price discrimination - Section 4.

1937 *Agricultural Marketing Agreement Act* -has provisions stating how and when cooperatives can act for individual farmers in voting, pooling of returns, and servicing producers under marketing agreements and orders.

1948, 1950, 1961 *Federal Housing Acts* - FHA could insure long-term, high percentage, mortgage loans to nonprofit housing cooperatives at modest interest rates.

1955 *Farm Credit Act 1955* - provides for retirement of government capital in Banks for Cooperatives.

1964 *Civil Rights Act* - presumably cooperatives cannot deny membership for reasons of color, race, religion, or political beliefs. Very likely those that receive federal financial assistance or services from federal agencies would not be permitted to discriminate on these grounds.

1968 *Agricultural Fair Practices Act of 1967* -(became law on April 16, 1968). Prohibits unfair trade practices affecting producers and associations of producers, Administered by the Farmer Cooperative Service, United States Department of Agriculture.

STATE LAWS

From 1865 when the first state cooperative law was passed (in Michigan) to 1920, passage of state laws was slow. (The 1865 Michigan law is generally considered the first cooperative marketing law. However, in 1857 New York legalized mutual town cooperative fire insurance companies. Ohio passed a similar law that same year which was amended in 1862 and again in 1877. Ohio also passed in 1867, a law providing for creation and regulation of cooperative trade associations and for the creation of cooperative purchasing associations.) Only about 10 states had enacted special cooperative laws by 1910 - the number of cooperatives were also relatively few. After 1920 and especially during 1920 to 1930, numerous laws were passed and many laws passed in earlier years were amended and revised. All states now have cooperative statutes and although they differ in particulars, there is a high degree of uniformity among them. Many were patterned after ones in Wisconsin, Nebraska, and Kentucky.

Wisconsin enacted its first cooperative law in 1887. The provisions included limited liability, sales to nonmembers for cash only, and shares of stock to cost not less than $1 nor more than $5. Members, not shares of stock, were the basis of voting; no proxies were allowed; and one association might own shares in other similar associations up to a one-third interest and one vote. In 1911 Wisconsin passed a largely revised cooperative law. It was copied by 16 states. Wisconsin revised its cooperative law again in 1921 and in 1955. The 1955 Act is, perhaps, the most complete codification of law covering cooperative associations in any state, and is the product of a state-wide committee of cooperative leaders and of legal counsel.

The principal provisions of the 1955 Act with minor amendments are:

- Five or more adults may form a cooperative with or without capital stock.
- Promotion expense is limited to 5 percent of paid up capital stock or membership fees.
- Each member entitled to vote shall have one vote, but local associations affiliated with central associations may vote on the basis of number of members the local has, or on the amount of business transacted with the central organization.
- Proxy voting is not allowed but voting by mail is permitted.
- A quorum must be present to legally transact business.
- The business and affairs of the cooperative should be managed by a board of directors of at least 5 persons (3 in associations with less than 50 members).
- Marketing contracts are permitted but cannot exceed five years duration.
- Remedies for defection of a contract are liquidated damages, injunction, and specific performance. The contract may be filed together with a list of its signers with the local register of deeds to give notice to all third parties of the equitable interest of the cooperative under the contract.
- Once annually the directors shall determine and distribute the net proceeds after all operating expenses are met and reasonable and necessary reserves are set aside - not over 5 percent of net proceeds may be set aside as an educational fund.

- Officers or employees or both may receive a share of the net proceeds (as bonuses).
- Dividends may be paid on shares of capital stock (no maximum limit set but no impairment of capital may result from such payment); and the remaining net proceeds shall be paid as patronage refunds either to member patrons only, or to member and nonmember patrons alike, or to nonmember patrons at a lower proportion than to member patrons.
- The books of a cooperative may be examined by a member or stockholder at any reasonable time and for a proper purpose upon written application.
- An association organized under the cooperative law (Chapter 185) does not have to file a state income tax return.
- Only cooperatives may use the term "cooperative," or any variation thereof as part of its corporate or business name.
- Whenever a corporation has discriminated against an association doing business in this state, its charter may be vacated or its license to do business may be revoked.
- The statute also authorized the organization of hospitals and sickness-care associations on a nonprofit basis.

Chapter 186 of Wisconsin statutes relates to the organization and operation of credit unions. Since credit unions as savings and lending institutions are a distinctive type of cooperative akin to banking, they are subject to this special legislation. Farmers' town mutual insurance companies are organized under Chapter 202. No special state cooperative law exists under which consumers' cooperatives incorporate, so if they desire, they can be chartered under Chapter 185. (The District of Columbia Consumers' Cooperative Act, 1940, is a federal law under which consumers' cooperatives may incorporate.)

Several Wisconsin laws have special provisions applicable to cooperatives. Chapters 118.01 (8), 118.19 (6), and 37.29 require the teaching of cooperative marketing and consumers' cooperation in high schools, technical schools, and the University; and adequate instruction in cooperatives as a prerequisite for granting a teacher's certificate for teaching economics, agriculture, or social studies. Chapter 76.48 states that electric cooperatives shall pay a license fee of 3 percent of gross revenue in lieu of general property and income taxes. And Chapter 93.06 (6) authorizes the State Department of Agriculture to require uniform systems of accounting, to investigate management of cooperatives, and to obtain reports on specific practices of associations. Chapter 196.605 includes a paragraph about regulating telephone cooperatives.

A cooperative of whatever size and for whatever purpose *should be incorporated* to avoid the risk to members of unlimited legal liability. It is also well to hire a lawyer familiar with the law, court decisions, tax rulings, and other matters that affect cooperatives at the time of organization or when bylaws are amended. Cooperatives have *no special immunity* from antitrust laws - they can be prosecuted for violating these laws just as well as noncooperatives. Also, the Capper-Volstead Act and the state cooperative enabling acts give cooperatives the same right that other businessmen have to organize large groups for legitimate business purposes - and impose on them the same rules that other businesses are subject to with the same penalities.

TAXATION OF COOPERATIVES

Generally speaking, cooperatives are subject to the same taxes at the same rates as regular corporations with certain exceptions. Thus, cooperatives pay social security, real estate, sales, personal property, excise, franchise, and other taxes which other corporations pay. However, both state and federal laws make some special provisions for tax treatment of cooperatives.

In Wisconsin, any cooperative incorporated under Chapter 185 of Wisconsin Statutes is exempt from paying Wisconsin corporate income tax. (In 1972 this tax varied from 2.3 percent on the first $1,000 of taxable income or any part thereof to 7.9 percent on all taxable income in excess of $6,000.) Electric cooperatives organized under Chapter 185 pay annual license fees of 3 percent of gross revenues from the sale of electric energy to members in lieu of all other general property and income taxes. Private companies providing electric power are taxed instead on the assessed valuation of their properties.

Under the federal Internal Revenue Code, cooperatives qualify as either exempt or nonexempt cooperatives. Farmer cooperatives that qualify under Section 521 of the Code are organized and operate so as to have little or no taxable income. These exempt farmer cooperatives, upon meeting the restrictive provision of the IRS, do not have to pay an income tax on net earnings whether declared as cash or as deferred patronage refunds provided that a preexisting mandatory obligation to refund exists. Nor do they pay income tax on

dividends declared on capital stock (8 percent maximum); nor on net revenue from nonpatronage operations such as from rent, interest, and business done with the federal government.

Net earnings *not allocated* to patrons *are* taxable to the cooperatives. Details of the restrictions imposed upon farmer cooperatives to qualify for exempt status are not listed here. They are however, sufficiently inclusive that many cooperatives deliberately decide not to qualify for exemption and, instead, operate as nonexempt associations.

Nonexempt cooperatives are subject to regular corporate income taxes except that patronage refunds made pursuant to a preexisting contract to refund net earnings to the patron are deductible from taxable income. To be deductible, such amounts must be allocated on a patronage basis. A nonexempt association *is* subject to a tax on stock dividends and on nonpatronage income such as income from rents, interest, dividends, and business with the federal government.

It is apparent that an association which operates on a cost or nonprofit basis has no income to tax at the corporation level. Farmer patrons, however, who receive dividends on stock and patronage refunds must, of course, record these amounts in their personal income tax returns. The income is taxed at the member-recipient level and thus does not escape taxation as might be inferred.

Patronage refunds from consumer cooperatives - grocery stores, hardware stores, oil stations, and other consumer goods associations - however, are not income to the patron. Instead they represent savings on purchases and are not, therefore, to be included in the patron's tax return

Farmer cooperatives are not automatical exempt from paying federal income taxes. They must request a "letter of exemption" by filing Form 1028 with the District Director of Internal Revenue Service and providing the information called for by the IRS. Once the "letter" is granted, it is not necessary to renew the request unless the organization and operating methods change substantially. Annual returns must also be made to the IRS on the forms provided.

MARKETING CONTRACTS

One legal instrument that ties the member to his association is the marketing contract. Since marketing contracts involve many legal considerations, contracts are discussed here rather than in the section dealing with membership relations. Chapter 185.41, 185.42, and 185.43 of the Wisconsin Statutes should be read to note what Wisconsin law states concerning cooperative contracts

The marketing contract (widely used in marketing organizations, but seldom used in purchasing and service associations) specifies the conditions under which members' products are handled by the association. It states in writing the rights and duties of the signer and the association, the marketing services and charges to be made, and the remedies for breaking the contract, Many large-scale marketing associations have contracts with their members, and some small local associations have also found them advisable. The prevailing practice now is to use the contract during the early years of the association, but to discontinue its use as the organization becomes established.

Purpose

A marketing contract practically assures the association of the continuous support of its members and a fairly definite volume of business. It cuts down the cost of soliciting member patronage; improves the standing of the association in the eyes of bankers, farmers, and the trade; and indirectly strengthens the status of the association through its improved borrowing ability. It protects the loyal majority by providing legal means to coerce a disrupting minority, as well as restrains outside interference. The contract states the duties of members so that no misunderstanding need arise concerning delivery, handling, and market charges. It also prevents nonmembers from using the association as a threat over local buyers. Further, it helps create buyers confidence in the association since they are fairly well assured of receiving products sold to them.

Types of Contracts

Two types of contracts are used by marketing associations - agency, and purchase and sale. These contracts have different legal implications, although in actual practice one finds little difference between the two. If the first is used, the cooperative acts as agent handling products for the producers. Under the second, the cooperative buys the products for resale and thereby takes title to them. It agrees to pay the producer the price received upon resale less the handling charge. Remedies for breach of contract are the same for both types. Banks and credit institutions have favored the purchase and sale contracts since these contracts permit management to exercise its judgment more freely regarding the sale of the products. Under purchase and sales contracts,

cooperatives have title of (own) the products; whereas under an agency contract, the cooperative merely handles products for the owner producer.

Duration of Contracts

Contracts in Wisconsin vary from 1 to 5 years, the maximum permitted by state cooperative law. They may terminate at the end of the contract, or be self-renewing for an additional period (not to exceed five years) if so provided in the contract. Today, most contracts include a clause permitting the member to withdraw from the association during some specified time each year - usually a one-month period at the close of the marketing year.

The minimum length of the contract logically depends on the time it takes to market products and upon the extent of capital investments. A contract in a livestock shipping association may very well last one year at the start, and for convenience sake, be self-renewing for longer periods. Livestock shipping associations rarely require capital investment, and all of the business is practically completed with each shipment - hence, there is less need for a long contract.

A cooperative that must provide a plant and expensive equipment, or one whose marketing operations are not always completed in a year, needs a longer contract than one year. Associations marketing tobacco ordinarily use a self-renewing five-year purchase and sale contract, It is a good policy to start with as short a contract as is economically expedient.

Remedies for Breach

Contracts are not always fulfilled, and thus cause a financial and moral loss to the association. The Wisconsin statute provides three types of remedies for breach (failure of member to deliver products) or contemplated breach. Liquidated damages up to 30 percent of the value of the products that are the subject of the breach may be provided. The law also reads, "In the event of breach of a contract authorized by s. 185. 41 by a member, the association shall be entitled to an injunction to prevent the breach or further breach thereof, and to a decree of specific performance." Such injunction may restrain members from selling outside the association, as well as preventing buyers from trying to get members to violate their contract.

Filing Contracts — Third Party Notice

A clause in the cooperative statute permits an association to file in the office of the register of deeds of the county in which the contract signers live, a copy of the contract, together with a sworn list of the signers. The statute also prohibits third parties from interferring with the fulfillment of a contract between a member and his association. If an outside purchaser buys the contracted commodity from a member, that purchaser becomes liable for damages to the cooperative.

"The filing constitutes notice to all persons of the association's rights under the contract. The filing also constitutes such notice that an interest in the title to all products agreed to be sold by the member-maker of such contract to the association during the term of such contract is vested in the association. In case of a purchase of any such product thereafter by any party other than the association, from any party other than the association no interest of any nature shall pass to such other purchaser; the association may recover the possession of such products from any person in whose possession they may be found, may obtain an injunction to prevent any attempted purchase, receipt, or transfer not permitted by the contract or may enforce its rights in any manner permitted by law."

Contracts — No Substitute for Efficiency

A word of caution may be in order. Some cooperative leaders believe that the membership problem is solved if a contract is used. This is far from fact. A contract does not replace loyalty - it is no stronger than the will of the majority. A contract is valuable and serves a useful purpose, but it should not be relied upon too heavily. Operations must still be efficient; competition must be met; and members must be well informed if the cooperative is to succeed.

HISTORICAL DEVELOPMENT OF COOPERATIVES ABROAD

Society, since the beginnings of civilization, has embraced elements of both cooperation and competition. Men have always found it necessary to work together to survive, and have always struggled to gain advantages and personal advancement. It is not known where cooperation for survival or production originated. Even in ancient times associationism promoted greater progress than sheer individualism. Cooperation in the sense of working together for a common goal is, no doubt, as old as civilized society itself.

But the modern business phases of cooperative development have comparatively recent origins, both in the United States and abroad. Cooperatives started about the middle of the last century and now have some 250 to 275 million members. Today, cooperatives are found in nearly all countries - in the less developed nations as well as in the highly advanced.

BEGINNINGS IN ENGLAND

Early cooperation in Great Britain undoubtedly influenced the nature and growth of cooperatives in the United States and other countries, especially consumers' cooperatives.

Prior to the industrial revolution (about 1750 to 1850) most families were largely self-sufficient. Then the industrial revolution introduced the factory system of production. It gradually replaced a domestic system of cottage industries and home craftsmanship; congregated workers in large cities; and made workers dependent on others for provisions, housing, and other necessities. A commercial economy was ushered in. Wages, prices, money and credit, transportation, sales, and employers and employees as distinct classes emerged.

The succession of remarkable inventions followed one another so fast that chaotic social conditions resulted as well as some economic improvements. (Some of the inventions that revolutionized industry were: Darby's process for smelting iron with coal instead of charcoal, early 18th century; Kay's flying shuttle, 1733; Hargreave's spinning jenny, 1764; Arkwright's spinning frame, 1769; Watt's steam engine, 1769; Compton's "spinning mule," 1779; Cartwright's power loom, 1785; and Eli Whitney's cotton gin, 1793.) The widespread poverty, unemployment, distress, and social deterioration in the wake of the industrial revolution stimulated a demand for legislative industrial, and social improvements.

Not only was there a revolution in industry, but one had already been underway in agriculture before the 17th and 18th centuries. Scattered field strips and land previously cropped were made into large estates enclosed by hedges to pasture sheep and other livestock - extensive instead of intensive agriculture. Changes in land ownership, the kinds of crops grown, methods of cultivation and preparation of land, the tools, implements, and machinery used accompanied the enclosure movement. Between 1760 and 1843 nearly 7 million acres of land were enclosed in England so that large numbers of small farmers were driven off the land. Serfs, villeins, tenants, and freeholders moved to burgeoning towns and cities only to discover that jobs were not easy to find in the new factories or trades.

Also during this period (roughly 1750 to 1850), there was a growing tendency for persons to dissent, to publicly express themselves, and to take issue with the status quo. They questioned legislation which forbade people to move from one occupation to another or from one district to another, and deplored the social and economic status of workingmen. In short, there was a revolution in ideas and a demand for personal rights. Adam Smith writing in 1776 became the great advocate of laissez faire laissez passer (a noninterference principle) which helped accelerate the three revolutions - in industry and commerce, in agriculture, and in ideas. As a result of this freedom of expression, Owenism, Chartism, Teetotalism, Socialism, Reformists, and Anti-Corn Law Leaguers became very active in the 1840's.

Action to Alleviate Distress

To alleviate the depressed conditions of the masses, for these were the years that culminated in the "Hungry Forties," the government of England passed the completely inadequate and generally badly administered Poor Laws as a public relief measure. Philanthropists also aided by purchasing flour and meal and distributing it at wholesale prices to the poor; by operating corn mills at cost or without charge; and by supplying fuel, clothing, and the barest staples at cost or as contributions to the poor. Such help, desirable as it was, was totally inadequate.

In addition to these measures, workingmen helped themselves:

1. Their guilds - associations of merchants, artisans, craftsmen, and others with mutual interests which set up rules and regulations binding their members in their production or business operations - supported them financially during sickness, family hardship, or other crises. Friendly Societies - health and life insurance associations legalized by the Rose Act of 1793 - supplied member families with funds and assistance during illness and death from dues collected previously.

2. Workers organized labor unions to bargain with employers and to promote more favorable labor legislation such as the Trade Union Act of 1871.

3. They tried political action to improve their lot. The Chartists, 1838-48, wanted the reforms called for in the Peoples' Charter - universal adult male suffrage; vote by ballot and one-man, one-vote; annual meetings of parliament; payment of members elected to parliament; equal electoral districts; and abolition of property qualifications. Chartism as a political party ended in 1848 with the death of its leader. Also the Anti-Corn Law League appealed more to cooperators than Chartism and this contributed to its demise.

4. Workers organized cooperative associations for the production of commodities, purchase of consumption goods, and to provide cooperative housing.

Early Cooperative Societies

Cooperation existed in business prior to the Industrial revolution, the most successful attempts being in insurance. There are records of mutual fire insurance companies in London and Paris as early as 1530, but the first highly successful one on which definite information is available is the Amicable Society, organized in England in 1705.

Cooperative or quasi-cooperative industrial enterprises occurred in England at least as early as 1760. Most of these early cooperatives apparently were consumer-controlled organizations for flour milling and baking.

The Weaver's Society at Fenwick, Scotland, began by clubbing together to buy necessaries as early as 1769. Probably isolated purchasing cooperatives existed in most of the West European countries before 1800. These organizations failed to attract much attention until the early 19th century when a prominent industrialist named Robert Owen began to advocate the establishment of cooperative communities to alleviate the suffering of industrial workers. Between 1825 and 1830 a number of cooperative journals were circulated but their life spans were short. Cooperative congresses advocated and promoted cooperation - the first in 1830 at Manchester, the second in 1831 at Birmingham, and the third in 1832 in London. Owen's influence and rhetoric exerted itself in these and later congresses, as is shown by the fact that the Third Congress went on record that "the grand ultimate object of all cooperative societies is community on land." Cooperative corn mills for grinding flour also appeared in a number of cities shortly after the turn of the 19th century in order to cut the cost of flour and prevent its adulteration by covetous millers.

The Owenites

The cooperative movement in a real sense, however, began with Robert Owen - a factory reformer, a Utopian Socialist, a pioneer of industrial cooperation and trade unionism, and an advocate of communal living. Owen (1771-1858) envisaged villages including farm lands and small-scale industry, all operated cooperatively by the citizens of the villages who would live communally.

Owen's communities were originally conceived as a cure for unemployment but later as a way to replace private capitalism and competition with self-employment and with conditions that should provide universal happiness. He planned that such communities would consist of about 1000 people, 1500 acres of land, with common buildings and apartments for individual families; and

would cost between $200,000 and 250,000. Wealthy sympathizers of Owen's schemes were to finance such projects rather than the inhabitants of the communal villages. Such villages were attempted at New Harmony, Indiana (1825-27); and at Orbiston, Scotland; Ralahine, Ireland; and Queenswood, England. All failed.

This failure, however, did not keep Owen from preaching cooperation as the best solution to mankind's problems. Because of the stimulus of his teachings cooperative societies, labor exchanges (where handicrafts were exchanged presumably on the basis of the amount of labor involved in their making), trade unions, and magazines for workingmen started about 1820 and afterwards. Most lasted only a short time, but the seed was sown for a later harvest of cooperatives.

Owen was an idealist more than a realist, visionary rather than practical and an advocate of industrial cooperation, not of consumers' distributive cooperation. In fact, in 1836 he wrote:

> "To my surprise I found there six or seven Cooperative Societies in different parts of the town, doing well, as they think, that is, making some profit by joint stock retail trading. It is, however, high time to put an end to the notion very prevalent in the public mind that this is the social system which we contemplate, or that it will form any part of the arrangements in the New Moral World."

And in 1839 he neglected to reply to Charles Howarth's urgent request to come to Rochdale, England to discuss cooperative organization plans - probably because he had little time for cooperative trading companies such as Howarth and the Rochdalians were thinking about.

Owen had more grandiose ideas, encompassing agricultural and industrial production, education, housing, and commercial distribution - the whole gamut of economic activity on a cooperative basis. No doubt, Owen (called by some the Father of Cooperation) believed it far more important for persons to increase their incomes, to improve their living conditions, and to free children from debilitating factory employment than to save a few pennies on retail buying.

Dr. William King — Father of Distributive Cooperation

Dr. William King (1786-1865) of Brighton, England was a social reformer and a realistic advocate of consumer cooperation. He learned about Robert Owen and accepted much of Owen's social philosophy although he differed with him as to how to achieve its ends. King was a physician and soon became interested in improving the welfare of the working people of Brighton. To this end he became involved in organizing an Infants' School (1823), the Brighton Provident and District Society (1824), the Brighton Mechanics' Institute (1825), a Subscription Library (1826), the Cooperative Benevolent Fund Association, and the Brighton Cooperative Trading Association (1827). Some of these lasted only a short time.

Beginning in May 1828 and continuing for two years, Dr. King published at his own expense a small magazine called "The Cooperator." Its 28 issues contained King's important contribution to cooperative thought and were a source of inspiration, information, and instructions on cooperation in general and cooperative shopkeeping in particular

King was much more realistic and far more understandable about cooperation than Owen. His plan was relatively simple. He urged the workers to:

- save their money,
- invest their money in their cooperative retail store,
- pay cash for merchandise,
- operate democratically,
- publicize the cooperative movement so it might grow and become effective,
- reinvest the "profits" or net earnings in the store to enable the store to employ its own members who would make things to be sold in the store or to other buyers.

King taught that cooperatives should start small with members supplying the original capital (Owen relied on wealthy outside investors to supply the funds for large-scale operations). He also believed that cooperatives should not pay a patronage refund but that the net earnings should be put in a reserve fund and used for the good of all the members so as to enlarge the cooperative's activities in production, crafts, and provide employment. He did not object to Owenite self-sustaining cooperative communities provided they were set up with the members' own capital and restricted to Christians. (King was a deeply religious man who believed that the spirit and ethics of the Gospel were those of cooperation also.)

In many respects Dr. King was more responsible for the extension of the cooperative idea and for the organization of many cooperatives than Robert Owen ever was. King was truly the "Father of Distributive Cooperation," the real inspirer of

consumers' cooperative stores in England whereas Owen encouraged self-employment and communal living and started no stores. King's little periodical was distributed throughout England. It advocated the kind of cooperation within reach of the common man in its realistic, albeit optimistic, proposals. His was a grass-roots, bottom-up, simple scheme of organization contrasted with the far more expensive top-down plan of Robert Owen. As a result, the movement grew from a few societies in 1826 to around 300 shops in 1830 - many patterned after King's Brighton Cooperative Trading Association. (King's ideas may also have influenced American cooperation - a Mr. William Bryan, treasurer of a cooperative at Brighton, England came to New York in 1829 and helped organize a consumers' cooperative store in that city in 1830.)

After Dr. King discontinued his active role in the cooperative movement (necessitated by his need to give more attention to his medical practice which was suffering from the criticisms, false accusations, and other snide remarks of contemporaries in Brighton; and also because of poor management and internal problems in individual stores), the movement was for all practical purposes dead by 1840. Regrettably, King was a forgotten man, and editors and pamphleteers in the 1840's and 1850's either never heard of him or completely ignored him. "The evil that men do lives after them - The good is oft interred with their bones" (with apologies to Shakespeare) - so it was with King.

THE ORIGINAL TOAD LANE STORE, FIRST HOME OF THE ROCHDALE PIONEERS.

Sketch Taken From "The History of Cooperation" by George Jacob Holyoake

The Rochdale Pioneers

During this early period of cooperative development, one of the societies which had sprung up in 1833 and failed in 1835 was at Rochdale, England. Dr. King's writings might have influenced this early Rochdalian cooperative because James Smithies, one of the leaders among the 28 Rochdalians, was inspired by King's "The Cooperator" and showed it to the Rochdalians. A nucleus of this determined group continued to work actively for social reform. From the work of this nucleus, the cooperative movement in Great Britain was able to achieve outstanding success. The foundation of this success was not new. It was based upon the intelligent combination of various ideas which had been tried by previous cooperatives. The failures of the past became the warning signals of later years so that firmer foundations could be laid.

A consumers' cooperative store, started in Rochdale, England in 1844, and continuing to this very day, provided the organizational and operating pattern that became the prototype for other consumers' cooperatives, both at the retail and wholesale levels, the world over. These 28 Rochdalians had high hopes and aspirations. They hoped not only to establish a store for the sale of provisions but also to acquire homes in which their members might live; to manufacture articles that the society's members might need as well as to provide employment; to acquire land on which to produce products needed by members; and to employ those members out of work or those whose wages were very low. They wanted to "establish a self-supporting home colony of united interests" and to "arrange the powers of production, distribution, education, and government" in the interests of its members. And finally, "for the promotion of sobriety a temperance hotel [was] to be opened in one of the Society's houses as soon as convenient." This was, indeed, an ambitious program, and how different it was from the purposes which cooperatives today state as

their reasons for organizing.

The business practices (later called Rochdalian principles) which these pioneers laid down for operating their little store on Toad Lane were not individually novel but the combination of all of them was essentially new. These practices were:

1. Capital should be of their own providing and bear a fixed rate of interest. (Limited return on equity capital.)
2. Only the purest provisions procurable should be supplied to members (to do away with abominable adulteration of food).
3. Full weight and measure should be given. (Provide honesty in weighing.)
4. Market prices should be charged, and no credit given nor asked. (Cash trading; no charge accounts; charge prevailing prices.)
5. Profits should be divided in proportion to the amount of purchases made by each member (patronage refunds).
6. The principles of "one-member, one-vote" should prevail in government, and the equality of the sexes in membership (democratic control).
7. Management should be in the hands of officers and a committee elected periodically. (Representative government and control of the cooperative.)
8. A definite percentage of profits should be allotted to education. (Provision for education in cooperation.)
9. Frequent statements and balance sheets should be presented to the members (member information).
10. No inquiry should be made into the political or religious opinions of those who apply for membership. (Political and Religious neutrality.)

Note that these Rochdalian rules were devised to run a small grocery store and although they have wide application, they are not necessarily appropriate for all types of cooperatives in all locations. Such principles as democratic control by member-users, limited dividends upon equity capital, and operations at cost (with its corollary that if gross margins or incomes exceed costs, refunds will be made on a patronage basis) are almost universally followed. But cash trading, charging prices that other dealers charge, sending out frequent statements and balance sheets, or even setting aside a part of the new savings in an educational fund are not adhered to by all associations. The success - one might add, the phenomenal success - of the Rochdalians was by all means the shot in the arm that the cooperative movement needed in its doldrum days of the mid-forties. Rochdale became the beacon for others to follow.

The Christian Socialists

The revival of interest in cooperatives toward the late 1840's and early 1850's is due, in no small measure, to the work of a small band of reformers called the Christian Socialists. Owen's attack upon individualism, the family, competition, private property, the profit system, and upon organized religion alienated many people from cooperation and heaped upon him and his followers the condemnation of churchmen and others as well. There were about 70 members in the Christian Socialists' group which held together for about 6 years from 1848 to 1854. This group was led by a half dozen eminent clergymen of the Church of England and by brilliant members of the legal profession. Two also taught in the University of Cambridge. These men wished to arouse the church to its social responsibilities and attempted to "Christianize the Socialists and Socialize the Christians," as one wag put it.

This group published its ideas in a weekly newspaper and later in a journal. It advocated associationism instead of competition and self-help instead of legislation to reform society. To this end the leaders started about three-dozen self-governing workshops of tailors, shoemakers, printers, bakers, smiths, builders, and others but these all failed within 2 to 3 years. Such chance aggregations of workmen without any organizational or business experience were virtually doomed to failure. To remedy this situation, a Workingmen's College was started in 1854 where voluntary teachers taught night classes.

However, it was not the self-governing workshops nor the evening classes that gave fame and world renown to the Christian Socialists. Rather, it was their work in getting the first cooperative law of any country passed in England in 1852 - the Industrial and Provident Societies Act.

Prior to the enactment of this cooperative law, registration of cooperatives was under the Friendly Societies Acts of 1834 and 1846, but these acts were designed for sick-benefit and assistance groups and not for business firms engaged in daily trade. Hence, the cooperative stores did not have the proper legal protection essential to business enterprises, nor could they sell to other

than their members. Also, it was too costly to register under the Joint Stock law as noncooperatives did.

Therefore, the 1852 law was a most significant and major development in the cooperative movement. It protected the property of the societies, gave binding force to their rules, safeguarded the savings of investors, and provided legal status so that an association could sue fraudulent officials. It authorized dividends on purchases, limited dividends on shares of stock to 5 percent, and permitted sales to nonmembers. Although there were still unlimited liability for debts, share limits of £100 per member, and only one acre of land could be held by the societies, these could be rectified in later amendments to the law. This was done with the passage of the Industrial and Provident Societies Act of 1862.

This 1862 law, besides limiting the legal liability of members to their shares of stock and increasing to £200 the permissible shareholdings of members, permitted one cooperative to invest in the shares of another cooperative. This made possible the legal framework for the English cooperative wholesale which was organized the next year and is to this day one of England's largest mercantile establishments. The dedication of the Christian Socialists to the cooperative movement was relatively short-lived but their impact was great.

COOPERATIVE CREDIT IN GERMANY

In 1848, just four years after the founding of the famous Rochdale Cooperative in England, famine and extreme hardship spread throughout Europe. Many workers were unemployed in the great cities of Europe and even in many rural districts people were underfed because of crop failure. Conditions were particularly bad in Germany. Large numbers of workers and peasants died from undernourishment, and many of those who managed to live were in abject want.

At this time F. W. Raiffeisen, a sincere humanitarian, was mayor of a group of villages in Northern Germany. In an effort to alleviate suffering in his community, he founded a cooperative society at Coblenz for giving potatoes and bread to the poor. Raiffeisen soon realized that charity alone could not solve the problems of poor farmers, that what they needed was the means to help themselves by controlling their own money and making it work for them.

Accordingly, he organized a loan society which embraced various cooperative features. The first societies were, for the most part, efforts to help the needy by those who were more fortunate. Nevertheless, Raiffeisen continually taught the need for self-help which he saw work so well in cooperative banks organized by Herman Schulze of Delitzch, Germany. Finally, in 1862, Raiffeisen helped the peasants of the little town of Anhausen organize a truly cooperative loan society. Credit unions throughout the world base their organizations upon principles laid down by Raiffeisen.

Meanwhile, in 1850, Herman Schulze-Delitzsch had founded a somewhat similar credit institution among artisans in Eilenburg. From this original cooperative bank he evolved an institution peculiarly adapted to the credit needs of artisans and small-scale industrialists.

Both the Raiffeisen and Schulze-Delitzsch types of cooperative banks spread rapidly across Europe. While considerable rivalry and antagonism developed between them in Europe, Desjardines, Filene, and others adopted features of both in the formation of credit unions in North America. (Incidentally, the Credit Union National Association's headquarters building, Madison, Wisconsin was called "Raiffeisen House" for a number of years - and later "Filene House" in honor of Mr. Filene, the great Boston merchant, who did so much for the credit union movement in the United States.)

DANISH COOPERATIVES – MARKETING AND FARM SUPPLY

The origins of cooperative marketing in Europe appear to be later than those of cooperative purchasing and credit. While cooperative marketing agencies probably were organized in Germany, the United States and some other countries before they were organized in Denmark, their early and striking success in Denmark has led to its being generally considered the cradle of farmer marketing cooperatives. This early success probably sprang largely from the role of the Folk High School, peculiar to Denmark, which at first educated only young farmers and later farm girls as well.

These schools arose from the work of a practical philosopher and clergyman, Bishop Nikolai Frederick Severin Grundtvig (1783-1873), and of Kristen Kold, an educator. The first folk high school was established at Rodding in 1844 by Grundtvig, but the one started by Kold in 1851 proved more successful and the impetus for many others. Grundtvig had the ideas for the schools but it was Kold who popularized them and made

them realistic for the common farmers' sons.

The folk high schools, which developed slowly, have furnished rural Denmark with a homegrown trained leadership. They brought the country people together in a homelike atmosphere where they came to know and trust each other. These schools opened their minds to new worlds outside their experience. The students developed a willingness to think together, work together, play together - in short, to cooperate. Yet, these schools, of which there were 54 in 1970, are not vocational schools nor training schools for cooperatives, but rather liberal arts schools. This spirit of cooperation produced in the educational process has been, without doubt, an important factor in the growth of Denmark's cooperative movement.

The first cooperative creamery in Denmark was founded in 1882 at Hjedding. It was established on a sound economic basis and effected some distinct improvements, such as assembling and manufacturing a quality product standardized as to grade and pack at the point of production. The high quality butter made in the creameries was marketed under the government supervised "Lur Brand," denoting the acme in butter quality.

The first cooperative creameries had great success. They were organized on sound principles of cooperation and were well financed and efficiently operated. News of the success and popularity of the first cooperative creamery soon spread to other rural sections of Denmark and many others were organized throughout the country. These local cooperative creameries have federated to form wholesale export associations.

Cooperation in Denmark is not, however, restricted to dairymen nor to rural areas - consumers' cooperatives in urban centers also flourish. The first cooperative store was organized in 1886 by the Rev. Hans Christian Sonne, a Lutheran pastor, in the little town of Thisted in North Jutland. It operated according to Rochdalian principles and became the forerunner of about 1750 similar stores years later. Other firsts were:

- 1851 - first credit society, Jutland
- 1871 - first central cooperative wholesale society
- 1879 - first horse-breeding association
- 1884 - first cooperative bull association
- 1887 - first cooperative bacon factory at Horsens
- 1894 - first pig-breeding association
- 1895 - first cow-testing association

The extent and diversity of the total cooperative movement in Denmark may be seen from accompanying data:

> In 1970 there were 509 cooperative creameries (900 fewer than in 1930) that handled approximately 86 percent of all milk. In addition, cooperatives slaughtered about 88 percent of all hogs in 62 bacon factories; 45 to 50 percent of all poultry in 4 poultry slaughter plants, 40 percent of the slaughter cattle; and marketed 45 percent of the eggs through about 100 local egg-marketing associations. Approximately 42 percent of the fertilizer and 45 to 50 percent of the feed-stuffs were handled by around 1500 fertilizer and 1700 feedstuff cooperatives in 1970. About 40 percent of the Danish consumers are members of 1800 consumers' cooperatives and they supply about 12 to 14 percent of all consumer goods sold in Denmark to their members. Other cooperatives, such as agricultural machinery, laundry, waterworks, land credit, and societies that handle seeds, vegetables, fruits, and potatoes are also part of the extensive movement.

These developments took place without government assistance or subsidy. No special cooperative law was passed to incorporate cooperatives - common law principles and practices are the legal basis for organization and operation. Member-marketing contracts are universally used to obligate members to deliver their pigs, milk, poultry, and other products to their associations. An unusual obligation is that each member signs a guarantee to cover present and future debts of the cooperative - this personal and unlimited legal obligation still operates in most locals. Membership is open to anyone with a reasonable interest in joining. Limited dividends are paid on ownership capital. The principle of one-man one-vote is followed in locals. Net earnings are distributed on a patronage basis and sales receipts are pooled.

Traditionally, the Danish cooperative movement consists of a large number of specialized local associations - dairies, bacon factories, egg sales, purchasing or farm supply cooperatives, and consumers' associations - organized as independent, autonomous, self-managed and controlled bodies. In addition, a number of central organizations, usually federations, cover the entire country each representing a particular commodity field or functional activity. Today the trend is toward greater centralization and integration of local and terminal market activity. This impinges on local autonomy but recognizes

the technical and economic progress in marketing and production with which local associations by themselves cannot compete successfully.

To advance the many interests of farmers generally, and of their cooperative in particular, farmers operate The Federation of Danish Farmers' Union. The Federation of Danish Cooperative Societies. The Federation of Danish Small Holders' Unions. the Danish Agricultural Marketing Board. and the Agricultural Council - the latter. a central representative body for all Danish agriculture since 1919.

COOPERATIVES IN OTHER LANDS

Northern Europe has a very large number of cooperatives. These are of long standing as well as conspicuously successful.

Both urban and rural societies flourish in **Sweden**. No less than 80 percent of the sales of agricultural products there are handled by farmers' cooperatives, and practically all farmers belong to one or more marketing, supply, or service organizations. In 1965 cooperatives handled 20 percent of all retail business: 30 percent of the retail trade in foodstuffs: 17 percent of all petroleum products: 25 percent of new dwelling units produced: 10 percent of the life insurance sold: 80 percent of the output of agriculture and fisheries: and 30 percent of the trees felled in logging. Cooperatives manufactured 45 percent of the pottery, china and earthenware: 35 percent of the flour; 30 percent of the light bulbs: 25 percent of the margarine; 10 percent of the bakery products: and 7 percent of the meat products.

In **France**, 1 out of every 10 grocery stores is a cooperative and approximately one-seventh of the population are members. In that country where 1.5 million farmers belong to cooperatives, 80 percent of the grain, 45 percent of the fertilizer, 42 percent of the commercial dairy products, 25 percent of the wine, 25 percent of the feedstuffs, 20 percent of the fruits and vegetables. and 15 percent of the sugar beets were handled cooperatively in the mid-sixties.

In **Spain**. cooperatives processed and sold 45 to 50 percent of the wine in 1968.

Norway for years has been a stronghold of cooperatives. In 1964-65, 55 percent of farm production was sold cooperatively - 72 percent of the dairy products, 75 percent of the meat, 70 percent of the eggs, 60 percent of the meat animals slaughtered, and 45 percent of the garden products. Farm supplies purchased cooperatively include 60 percent of all feed concentrates and 45 percent of commercial fertilizers. Norwegian cooperatives also exported 100 percent of all meat and butter exports. 92 percent of the furs. 67 percent of the wool. and 50 percent of all hides.

Cooperatives also play a significant role in the food processing and marketing business in **Finland**. In the mid-sixties almost 100 percent of the butter, cheese. and milk powder was processed in cooperative plants; and 90 percent of the meat, 75 percent of the eggs, and 50 percent of the furs were marketed cooperatively. Cooperatives also do 25 percent of the hotel and restaurant trade.

In **Australia**, cooperatives market 85 percent of the dairy products, 67 percent of the wheat, and 50 percent of all grains. About one-fourth of the population belong to associations. In another down-under country, **New Zealand**, almost nine-tenths of the dairy products were sold by cooperatives in 1964-65. And in the **Netherlands**, nearly three-fourths of the dairy products were so processed and marketed.

One indication of the popularity of cooperatives is the proportion of the population that belongs to them. This. as can be expected. varies from virtually nil to a sizeable percentage. Table 4 reveals the interest in countries where cooperatives are common - it does not list the 100 or so countries which less than 10 percent of the population belong to cooperatives.

Table 4. Percent of Population Belonging to Cooperatives, 1960. [1]

Country	Percent	Country	Percent
Finland	77	Sweden	17.5
Denmark	32	Czeckoslovkia	16.[illegible]
Israel	30	USSR	16.9
Rumania	29	Cyprus	16.8
Australia	27	Switzerland	14.0
Great Britain	25	France	13.5
Bulgaria	21	Norway	11.5
Iceland	18	United States	10.3
Canada	18	Italy	10.0

1. From Reports of the International Cooperative Alliance.

In the late 1960's, the International Cooperative Alliance reported the percentage of the national retail trade in food and nonfood items sold by cooperatives in 10 European countries (Table 5). When one compares these figures with the appropriate country's figures in Table 4, it is apparent that cooperative members buy much of their food, and even more of their nonfood items, from other than cooperative stores.

Table 5. Cooperative Trade as a Percentage of National Trade in 10 European Countries, about 1967.[1]

Country	Percent of Total Sales	Percent of Food Sales	Percent of Nonfood Sales
Finland	35	43	21
Sweden	18	25	9
Great Britain	10	15	6
Norway	10	14	6
Switzerland	10	18	6
Denmark	9	14	3-4
Austria	5	7	3
Netherlands	3-4	8	0.3
Germany	3-4	6	0.8
France	3	4	0.6

1. Report by Committee on Retail Distribution of the International Cooperative Alliance.

According to the Statistical Abstract-1970, cooperatives handle slightly more than 1 percent of the total retail trade in the United States. The bulk of this is by retail farm supply cooperatives - feed, fertilizer, petroleum, chemicals, and seeds. Except for credit unions, urban consumers' cooperatives have not multiplied anywhere near as fast in the United States as in Europe.

The illustrations of cooperative development point to the extensiveness of the movement in Europe, the universal character of the movement, its diversity and prominence in some countries, and its absence or insignificant growth in others. Cooperatives in 60 countries consisting of 593, 000 associations with 255 million members were affiliated with the International Cooperative Alliance in 1970. This further indicates the worldwide magnitude of the movement.

HISTORY OF COOPERATIVES IN THE UNITED STATES

As each section of the United States was settled, pioneers cooperated in a real sense. Cooperation was essential to the development of communities. Most of this activity, however, was informal and did not involve commercial transactions. There were beef rings, barn raising bees, cheese rings, husking bees, bull rings, exchanges of labor during harvest and planting, and community social activities. In the South, plantation owners exchanged slave labor to get their work done. Agricultural fairs, which were held infrequently, represented a good deal of cooperation among participants and provided excellent opportunities for education and social contacts, as well as for buying and selling. Agricultural societies, dating back to the one in Philadelphia in 1785, were rural organizations for educational and social purposes that preceded in hundreds of counties the more businesslike and commercial organizations that appeared later.

SPORADIC BEGINNINGS, 1810-1870

As early as 1810, a cooperative dairy was started in Goshen, Connecticut. And in 1841, Anne Pickett made cheese in her home at Rock Lake, Wisconsin (near Lake Mills) from the milk produced on a number of dairy farms near hers. However, a mutual insurance society, founded in 1752 in Philadelphia with Benjamin Franklin as a director and its first chairman, is generally considered the oldest cooperative in the United States.

During 1810 to 1870, isolated local groups of farmers attempted to solve their marketing problems on a self-help basis. Cooperative processing plants for cheese and butter emerged in most dairy regions (over 400 by 1867). A cooperative grain elevator started in Madison, Wisconsin in 1857. A fruit marketing cooperative began in 1867 in New Jersey; and wool, cotton, and livestock marketing associations appeared in different producing areas. Most of these associations were unincorporated but those that were incorporated were done so under the general incorporation laws or under acts legalizing fraternal and non-profit associations, such as libraries and cemetary associations.

Buying clubs through which farmers pooled their orders and purchased farm supplies were also started in the 1850's. These clubs were usually loosely organized with little or no capital stock, no buildings, and no equipment. Sometimes they also served as social and educational associations.

These buying clubs either developed into business organizations with capital and facilities, employing personnel and giving regular service, or tended to fade out. Usually the clubs tried to operate on a very narrow gross margin. They made no provision for handling credit nor for taking care of unclaimed orders. All too often the local leaders in these buying clubs furnished the money for the group purchases, and served with little or no pay. Naturally, such arrangements proved to be temporary. The system demanded too great a sacrifice by a few individuals.

Enabling legislation legalizing cooperatives appeared as early as 1857 in Ohio and New York for mutual insurance companies. The laws in Michigan (1865) and in Ohio (1867) were the first to provide for the creation and regulation of cooperative trading associations. The first cooperative law in Wisconsin was enacted in 1887 but a more inclusive act was not passed until 1911.

GENERAL FARM ORGANIZATION INFLUENCE

Farmers were hard pressed after the Civil War - especially in the southern states. Problems were no longer simply local and confined to improving production and battling pests and diseases of crops and livestock. Instead, many were national and encompassed the whole gamut of political, economic, and social issues disturbing farmers. They included such things as taxes, roads, markets, interest rates, monopolies, tariffs, free lands, transportation, and education, etc.. It was in this environment that the first general farm organizations appeared to correct, if possible, the abuses, market imperfections, and causes for discontent that plagued farmers

everywhere. The first of these organizations was the Patrons' of Husbandry, commonly called the Grange, and the other was the Farmers' Alliance.

The **Grange** was not started in 1867 by its founder, Oliver Hudson Kelly, to promote cooperatives, but rather as a secret organization (patterned after lodges and fraternal societies) to consider all kinds of issues causing discontent among farmers. However, within a short time, in response to the demands of the members it became actively involved in cooperative buying of farm and household supplies, selling of farm products, and serving its members. After a relatively slow growth the first three years, new local Granges appeared so rapidly that by 1875 there were about 24,000 of them in more than two-dozen states. The local Granges affiliated with State Granges and these in turn with the National Grange.

In many localities local Granges bought farm supplies in pooled orders at discounted prices from wholesale suppliers or from (or through) their state Grange business buying agent. By 1874 there were 26 different state Granger business agents. Soon Granger stores started which carried farm and household supplies. In a number of places feed mills, hemp factories, and pork packing plants were run for members. Some state Granges even began manufacturing farm machinery - an ill-advised venture that proved ruinous for the state Granges involved - while others organized three Granger banks and simple life insurance companies.

The first Grange was organized in Wisconsin in 1871, and by 1875 there were several hundred. The subordinate Granges made collective buying of farm supplies their major undertaking. The state Grange appointed a state purchasing agent in 1871 and established a central buying agency in Milwaukee in 1876.

The Grange organized numerous buying clubs in Wisconsin, practically all of which have gone out of existence. Many of these clubs made bulk purchases of sugar, flour, or feed However, when prices dropped after orders were placed and before deliveries could be made, some patrons refused to accept their orders, except at the lower current market prices. With little or no capital or reserves, these buying clubs were, of course, not able to meet such financial distress. Despite their many failures, these clubs and Granger stores taught farmers a valuable lesson in what they could, and could not, do well in an organized way.

One of the real sore spots as far as Granger members were concerned was the monopoly of the railroads and the totally indifferent attitude of their owners toward the transportation interests of farmers. High freight and passenger rates, inequitable charges for freight service to the detriment of rural and western shippers, lack of state control over the railroads - these and other grievances led to what is commonly called Granger legislation. In Wisconsin, the state Grange was responsible for getting the radical Potter Law enacted in 1874 which fixed freight and passenger rates, created a three-man railroad commission, and vested the commission with sweeping regulatory powers. Two years later the law was repealed. In other states less drastic antirailroad legislation was passed largely through the determined efforts of Granger members. And in 1877, the United States' supreme court ruled that states had the right to regulate railroad services and charges, a principle for which the Grangers fought so strongly.

The decline of this farmer movement set in after its peak in 1875. In many states the Grange had overextended itself. It suffered financial losses, became involved in expensive lawsuits (on alleged infringement of patent rights on farm machinery), and failed to meet the high expectations of many members. The fundamental conditions that gave rise to the Grange were still a source of discontent during its eclipse - low farm prices, high freight rates, wide middlemen's margins, excessive interest rates, and monopoly of manufacturers, distributors, and the railroads. The vacuum thus created by the substantial decline in Granger membership and activities gave rise to the Farmers' Alliance in 1880.

The **Farmers' Alliance** as a national farm organization came from welding together a number of small regional farmer organizations that had existed for several years in several states, especially in the South and Southwest. This general farm organization was principally concerned with the prices farmers received and had to pay. Alliance stores started in the 1880's in a number of southern states. In 1887-88, the Texas state marketing and purchasing Exchange of the Alliance foundered on the rock of unwise extension of credit.

The Alliance leadership (1889) believed that farmers and city workers had a common cause against capital, and that the best solution for farmers' problems was in the political arena. Therefore, the Alliance united with the Knights of Labor to form the Farmers' Alliance and Industrial Union. It was soon actively involved in partisan politics and became the principal influ-

ence in the People's Party formed in 1891.

The People's Party advocated the abolition of national banks, free coinage of silver, expansion of the currency, 2 percent interest on treasury-loaned money, restrictions on ownership of land, prevention of future trading in agricultural products, state control of railroads, etc. Although there were some minor political successes, the defeat of its presidential candidate, James B. Weaver, in 1892 and that of William Jennings Bryan in 1896, whom it supported, spelled the downfall and destruction of the Alliance.

The **American Society of Equity**, organized in 1902 in Indiana, was another general farm organization that did much to promote cooperation. Its basic purpose was to have farmers control markets and thus provide "The Third Power" its organizer envisioned - labor and capital were the other two. It established a State Union in Wisconsin in 1903 - by 1906 there were state organizations in 13 states.

The society was the prime mover in setting up local cooperative marketing units throughout the state, especially grain elevators and livestock shipping associations. Some of these local organizations are still active although the parent organization no longer exists. Purchasing associations, often called Equity Exchanges, were also started in many parts of the state. Emphasis on cooperative marketing and purchasing, rather than on farm production, characterized this movement.

The Equity's "dollar" wheat campaign in the Northwest enticed farmers to join the society. And its very active campaign in Kentucky on behalf of tobacco growers - not without its violence, destruction, and embittered "Night Riders" - put the Equity in the thick of things soon after its organization. (Wheat was selling at around 70 cents a bushel, a very low price, and tobacco as low as 5 and 6 cents a pound. In order to get a better price for tobacco, Equity members decided not to produce tobacco in 1908. Those members and nonmembers who failed to go along with the Equity's decision were visited by armed "Night Riders;" were treated roughly, intimidated, and had their tobacco sheds burned and tobacco fields destroyed. Tobacco prices improved measurably and the Equity society claimed the credit for it, but it also brought disgrace upon itself by its overzealous members.)

Division within the organization, its loss of status in Kentucky and in tobacco states, its heavy financial losses in Wisconsin, and loss of its members to the Nonpartisan League in North Dakota brought about the disintegration of this militant farmer organization. In 1934, the Wisconsin Society of Equity united with the state branch of the Farmers' Educational and Cooperative Union of America, more familiarly known as the Farmers' Union.

The **Farmers' Educational and Cooperative Union of America** was organized in Texas in 1902 several months before the Equity was started. It followed on the heels of the Farmers' Alliance. From its very beginning, the Farmers' Union stressed organizing cooperative business associations. In its earlier years it shied away from partisan political entanglements which spelled the doom of its predecessor. After a number of years of making little headway among southern farmers whose expectations about increased cotton prices had not always been met, the Union expanded its organizational activities in Kansas, Nebraska, Missouri, and Iowa; and later in North and South Dakota, Montana, Wyoming, and Colorado.

Local cooperatives for marketing of grain, livestock, and dairy products were started in these states, as well as terminal grain-handling and livestock commission companies. Farmers' Union retail stores and statewide cooperative wholesale establishments served farmers in a dozen states or more during the 1910's and 1920's. Many of these cooperatives are operating successfully to this day and serve both members and nonmembers. The Farmers' Union Central Exchange of St. Paul, Minnesota is one of the large, successful, wholesale distributors of feeds, seeds, petroleum products, and many other items through Farmers' Union local affiliates here in the Midwest.

The Smith-Lever Act in 1914 created a county agent system under a tripartite control - the USDA, state agricultural extension services, and lay contributors consisting of farmers and agribusiness firms. This indirectly gave rise to county farm bureaus and state federations of these bureaus (nine federations existed by 1919). The county farm bureaus worked closely with county agents and helped pay the expenses of the county agricultural extension offices. In 1919, county farm bureau representatives of 12 states met at Ithaca, New York to organize a national federation which became the **American Farm Bureau Federation.** Farm bureaus were not only interested in improving farm production, but also had education, legislation, and economics programs. The latter became their central concern.

The Bureau's Committee of Seventeen for marketing grain, the Committee of Fifteen for marketing livestock, the Committee of Eleven for dairy products, the Committee of Twenty-one for

fruits and vegetables, etc. all recommended that there should be separate marketing programs for each commodity. The federation sponsored the cooperative marketing associations for the individual commodities but did not become the operating agency. As a result of the committees' proposals for single commodity marketing programs, terminal livestock commission firms were established on about a dozen central livestock markets, and several national associations were founded including the United States Grain Growers, Inc., Chicago; the National Livestock Producers' Association, Chicago; and the Federated Fruit and Vegetable Growers, Inc., New York City. Besides commodity-marketing companies, the Federation sponsored cooperative purchasing associations at the local and state levels which have had outstanding success. The Indiana Farm Bureau Federation of Indianapolis and F. S. Services, Inc., Bloomington, Illinois are two of the large regional Federations serving many local supply cooperatives built by county Farm Bureaus.

The National Farmers' Organization (NFO) of Corning, Iowa, 1955, is primarily a bargaining cooperative. It is chiefly interested in improving farm prices through bargaining with processors. To give force to its demands, it has encouraged its members on several occasions to withhold products from the market to raise prices by reducing the supply temporarily. Although some consider that this organization is not a general farm organization such as the Grange, the Farmers' Union, or the Farm Bureau Federation; nevertheless, others do and for that reason it is included here. The organization has members in a dozen states or more in the heart of this country, and its aggressive and simplistic approach to major marketing and pricing problems has apparently appealed to many farmers discouraged by low farm prices.

PERIODS OF COOPERATIVE DEVELOPMENT

The history of agricultural cooperatives in the United States can be broken down into periods based on the kind and amount of activity during the years involved. In some respects the history may be simply divided into two parts - before 1920 and after. As we shall see, 1920 was in many respects the end of one era and the beginning of another. However, the 150 years of cooperative experience can be subdivided into shorter periods for a better understanding of what transpired during this century and a half.

Although it is impossible to get a complete record of the organization of cooperatives in this country - few records are available for the early years and no official registration is required either state or nationwide - Table 6 (based on the records of 20,697 active and inactive associations in the files of the Division of Cooperative Marketing of the Federal Farm Board in 1932) gives some idea of the number of farmers' cooperatives that were formed each decade from the 1860's to 1930. Since the data are incomplete, especially for the years prior to 1900, many more cooper-

Table 6. Number of Farmers' Cooperatives Organized in Various Decades, by Commodity Groups, 1863-1931. [1]

Decade	Cotton	Dairy products	Fruits and vegetables	Grain	Livestock	Poultry and eggs	Wool, mohair	Misc. selling [2]	Misc. buying	Totals [3]
1863-1869 [4]	---	4	----	---	----	----	---	---	1	5
1870-1879	---	16	1	1	1	----	---	1	10	30
1880-1889	3	118	8	18	3	----	2	---	7	159
1890-1899	7	549	70	81	4	----	2	10	33	756
1900-1909	93	778	242	1,039	52	3	11	44	182	2,444
1910-1919	110	1,368	866	2,885	1,162	26	74	402	1,254	8,147
1920-1929	177	896	1,451	968	1,496	233	96	518	1,151	6,986
1930-1931 [5]	10	23	76	86	23	18	17	36	107	396
Total	400	3,752	2,714	5,078	2,741	280	202	1,011	2,745	18,923

1. Ellsworth, R. H., and staff, "Statistics of Farmers' Selling and Buying Associations, United States, 1863-1931," Bulletin 9, p. 4, Division of Cooperative Marketing, Federal Farm Board, Washington, D. C., June 1932.
2. Including forage crops, nuts, tobacco, and miscellaneous products.
3. Including subsidiaries and associations not engaged in selling or buying.
4. 7 years.
5. 2 years.

atives were started than the table indicates. It is apparent from the table that the three decades, 1900 to 1930, were the most active ones throughout the 68 years.

Before 1870 — Isolated Locals, Trial and Error Period

The first recorded cooperative in the United States was an insurance company in Philadelphia in 1752. A cooperative dairy was started in 1810 in Goshen, Connecticut; a grain elevator in Madison, Wisconsin in 1857; and another in Iowa in 1867. By 1867, 400 cooperative dairies processed milk and sold to established handlers. Farmers producing wool, fruits and vegetables, cotten, and livestock also started associations; and collective buying of farm supplies was begun. The whole period was characterized by independent group efforts and informal organization, lacking coordinated leadership and restricted to local community cooperation. Many associations were short-lived - only a few, undoubtedly, had heard of the Rochdalian plan of organization.

1870-1900 — Granger and Alliance Influence

The Grange and Farmers' Alliance organized hundreds of marketing and purchasing cooperatives, both formal and informal, during this period. Although Table 6 lists only 950 processing and marketing cooperatives organized in these three decades (549 of which were dairy cooperatives started during the 1890's), the list does not include hundreds of buying clubs and farm supply stores that also operated in this interval, albeit, in many cases for a short time only. Granger and Alliance stores and state purchasing agents were very active during the first two decades of this period, especially in the Midwest and Southwest. These general farm organizations led the organizational activities of farmers and through their state agents extended the sphere of cooperation from local communities to central markets as well. Even though the Grange began its decline after 1875 and the Alliance after its ill-fated political aspirations in the early 1890's, they had started enough successful cooperatives to show that farmers could organize self-help business firms and run them for their benefit. All was by no means lost with the eclipse of the parent organizations, since many associations kept operating and farmers unaffiliated with the Grange and Alliance continued for form associations, particularly dairy cooperatives in the 1890's.

A new development during the 1890's which affected cooperatives for many years was the passage of the Sherman Antitrust Act of 1890 and the antitrust acts of different states. (See section on "The Legal Basis of Cooperatives.") The legal status of cooperatives was consequently somewhat in jeopardy, and this led years later to the passage of both state and federal laws approving their status.

1900-1920 — Expansion, Governmental Approval, and Encouragement

This 20 years was one of rapid expansion of marketing, purchasing, and service cooperatives in nearly all states. Over 10,500 processing and marketing cooperatives started in these two decades. By 1920 there were 10,588 active marketing and purchasing associations; 1,944 farmers' mutual fire insurance companies; hundreds of dairy herd improvement associations, irrigation cooperatives, federal land bank associations, urban consumer cooperative stores and miscellaneous cooperatives - approximately 14,000 cooperative all told.

Most of these were, of course, local associations but some federations of locals were started, particularly by California producers and by Wisconsin cheese producers (1914). Centralized associations among tobacco growers, wool producers. poultry and egg, lima bean, and almond growers appeared around 1909-1910.

The Texas Farmers' Union (1902) and the American Society of Equity (1902) were most active during these years organizing sales and purchasing associations. President Theodore Roosevelt endorsed farmers' cooperatives in 1909 on the basis of the Country Life Commission's report. Beginning around 1915, Mr. Aaron Sapiro, one of the nation's leading organizers of cooperatives, gave much legal aid to California cooperatives.

Soon after President Woodrow Wilson was inaugurated in March 1913, he appointed a United States Commission to study cooperatives generally, but especially cooperative credit in Europe. This commission's report and that of a sister commission, the American Commission, approved strongly a cooperative credit system for American farmers and indirectly paved the way for the Federal Farm Loan Act in 1916. Also, the Smith-Lever Act (1914), providing for the agricultural

extension system, stimulated farmer cooperatives in many states. The organization of the Cooperative League of the USA under the leadership of Dr. James Peter Warbasse (1916) - a trade association which provided information, education, and leadership - was of special significance for the consumer cooperative movement in this period.

These two decades, 1900 to 1920, witnessed not only the extension of cooperatives in centralized, federated, and terminal market organizations and in new areas such as cooperative finance; but it also was a time when many organizations became firmly established, were conspicuously successful, and proved to members and skeptics alike that farmers could organize and run businesses to their advantage.

Decade of 1920's — One of the Most Active in Cooperative History

This decade can be described as one of superactivity as related to cooperatives. Table 6 indicates that 6,986 marketing and purchasing associations started during this period - many others, no doubt, also began for which no records were obtained. This was the decade of orderly marketing, commodity marketing, "California plan" of organization, "Sapiroism" and cooperative legalism. By 1929 about 3 million farmers belonged to thousands of associations that did more than $2.5 billion of business.

A quick summary of significant events during this eventful decade includes the following:

- Wisconsin cooperative law was drastically revised in 1921 and the Bingham Act passed in Kentucky (1922) - both served as models for many state laws during this decade.
- The Capper-Volstead Act, the principal law legalizing farmers' cooperative marketing associations engaged in interstate and foreign commerce was passed in 1922.
- Many favorable court decisions approved marketing contracts with member producers and established that cooperatives were not in violation of antitrust laws.
- Significant federal cooperative legislation was enacted: the Federal Intermediate Credit Act of 1923; the Cooperative Marketing Act of 1926; the Agricultural Marketing Act of 1929; and other legislation that exempted cooperatives from cert in provisions of these laws - the Grain Futures' Act of 1922, and the Packers' and Stockyards' Act of 1921.
- The American Institute of Cooperation organized in 1925 became, in a sense, the educational arm of the farmers' cooperative movement in the country.
- The National Council of Farmer Cooperatives began in 1929 to serve farmer cooperatives on many different issues.
- Colleges of agriculture that had not started giving courses in cooperatives or conducting research in this area during the previous decade did so in increasing numbers.
- The Joint Commission of Agricultural Inquiry (1921) endorsed cooperatives by farmers, including their legalization, as one way to improve the economic status of agricultural producers.
- Businessmen's commissions inquiring into the depressed conditions of agriculture also recommended cooperatives to alleviate the depression.
- Many bulletins and books about cooperatives appeared during this decade - examples being the USDA Bulletin 1266, "Agricultural Cooperation in Denmark," by Chris L. Christensen in 1924; E. G. Nourse's book, *The Legal Status of Agricultural Cooperation* (1927); Herman Steen's "Cooperative Marketing - the Golden Rule of Agriculture," in 1923; and textbooks on Cooperatives by O. B. Jesness, Mears and Tobriner, and H. Clyde Filley.
- The American Farm Bureau Federation, although organized in 1919, became very active in organizing cooperatives during this decade pursuant to plans proposed by several Farm Bureau committees.
- Widespread attention was given to cooperatives by farm leaders, the agricultural press and news media, political parties, educators, the courts, businessmen, and citizens in general.
- "Sapiroism," a method of organizing cooperatives promoted by Mr. Aaron Sapiro, was enthusiastically adopted by many farmers and their leaders and was also vehemently denounced by its critics. (Sapiro recommended organization on a single commodity basis restricted exclusively to farmers who sign long-term marketing contracts becoming effective when a high percentage of producers sign the contracts. The products were to be pooled and sold on sound merchandising principles and with an orderly marketing plan. C[illegible] izations were to be centralized [illegible] on a nonstock basis. By 1923 [illegible] socia-

tions had been set up by Sapiro, many of which had to be reorganized or ceased operations within a few years.)

Many of the centralized and federated associations operating in terminal or central markets today were begun in this decade - Land O'Lakes, Inc.; Equity Cooperative Livestock Sales Association; Great Lakes' Cooperative Wool Growers' Association; Midland Cooperatives, Inc. to name those with which Wisconsin farmers are affiliated. Both marketing and purchasing, as well as service cooperatives, set their roots deeply during this exciting period.

After 1930 -- Growth, Diversification, Bigness, Mergers

Many significant developments followed after 1930. The Federal Farm Board, which began to function in 1929, did much to organize national marketing associations in the early thirties so that local, terminal, and regional associations might be welded into unified programs of action. Of outstanding importance to rural America was the passage of the Rural Electrification Act, 1936, which made possible the organization and operation of rural electric cooperatives. Congress also enacted in 1933 the Farm Credit Act which created 12 regional and 1 central Bank for Cooperatives. The Act also established Production Credit Associations, all of which are functioning to this day. In the credit union field, the Federal Credit Union Act, 1934, was most important because it made it possible to organize credit unions especially in states not having state enabling legislation. The Fishery Cooperative Marketing Act, 1934, gave fishermen's cooperatives a legal standing such as the Capper-Volstead Act gave farmers marketing cooperatives.

During the early 1940's, cooperatives felt the pinch of a war time economy as did other commercial sectors. After 1945, many associations reactivated - the forward thrust into handling many commodities, providing numerous services, and deeper market penetration was underway. The increased capitalization of associations, the large annual business volume running in the millions for many firms, and the cooperatives' general trend toward bigness and growing market power also stimulated opposition to cooperatives on a national scale under the accusation that cooperatives failed to pay their fair share of federal income taxes. Opposition on these grounds has not subsided to this date.

Farmers' marketing associations increased business from $1.7 billion in 1939-40 to $7 billion in 194 -50; farmers' purchasing associations from $358 million to $1.6 billion - increases of 400 percent in the decade (partly due to inflation). Such growth was little less than phenomenal and showed the solid foundation on which farmers had built in previous decades.

Mergers, consolidations, and acquisitions got underway during the fifties, increased during the sixties, and thus far in the seventies have continued to involve large numbers of associations. The Associated Milk Producers, Inc. (AMPI), a merger of 43 dairy cooperatives from Texas to Minnesota and from New Mexico to Pennsylvania, involving about 42,000 farmers in 20 states as of early 1971, is just one of the mergers of farmer cooperatives during this period. That of Land O'Lakes Creameries, Inc. with "Felco" of Ft. Dodge, Iowa in 1970 is another significant merger involving Wisconsin dairy cooperatives.

During the fifties and sixties, farmers' marketing and purchasing associations in the United States increased their business volume by about $9 billion, but the number of associations declined from 10,000 to 7,500. This reduction in numbers was partially caused by mergers, by discontinuances, and by technological developments that have influenced many industrial and commercial corporations.

CONSUMER COOPERATIVE -- RURAL AND URBAN DEVELOPMENTS

Around 1798 the Shakers, a communal society at New Labanon, New York, started a buying club to pool purchase orders by their members. This was followed by many similar clubs. Such early buying clubs preceded the more formal cooperative stores.

As early as 1830, however, a cooperative store was started in New York City by William Bryan, the former Treasurer of a Brighton, England cooperative. John G. Kaulback, a tailor, was instrumental in starting a cooperative store in Boston in 1845 after having had success with a buying club for his labor union in 1844, the same year the Rochdalians opened their Toad Lane store. The Boston store of 1845 lasted longer than the New York store and, perhaps for this reason, is considered by some as the beginning of the consumer cooperative store movement in this country.

Cooperative stores for purchasing household supplies have had a most erratic experience in the United States - many were started, lasted a few years, and then succumbed for a variety of

reasons. Many Granger and Farmer's Alliance stores of the 1870's and 1880's carried consumer items as well as farm production supplies. These farmers' stores were one of several waves of cooperative store activity. Another was that started by labor unions in the seventies and eighties - namely, by the Knights of St. Crispin, Knights of Labor, and the Sovereigns of Industry. The Mormons also promoted such stores (1864-1893), and many independent associations started during 1860-1900. Few of these stores lasted after the initial enthusiasm wore off and when difficult management and operating problems arose.

By mid-1970, out of 236,000 stores handling meats and groceries in the United States, only 730 were cooperatives. At no time have cooperative food stores ever handled more than a minute fraction of the retail trade in foodstuffs, and for years most of this consisted of trade with farmers in rural communities.

In 1916 Dr. James Pe. r Warbasse, a New York surgeon and physician, was the principal organizer of the Cooperative League of the USA, a trade association of consumer cooperatives which has provided information, educational materials and leadership for consumer cooperatives in this country.

Cooperative wholesalers, which have had impressive business successes over the past 25 to 50 years, have also helped retail associations operate successfully in hundreds of communities. Except for a few very large supermarkets, cooperative food stores are generally small single-unit establishments found mostly in small towns and villages. (For an excellent account of the history of consumer cooperatives in the United States, see Florence E. Parker's book, *The First 125 Years*, 1956, available from The Cooperative League of the USA, Chicago, Ill.)

COMMUNAL SOCIETIES — LIVING, WORKING, WORSHIPPING TOGETHER

One movement, possibly important to the development of business cooperatives in this country, was the establishment of 128 communal societies. These societies were patterned in some respects after the communal societies of Robert Owen and Charles Fourier, but most had different objectives. Most were promoted by religious enthusiasts, some by social reformers, and others by followers of leaders of one type or another. The teachings of Fourier and Robert Owen either directly or indirectly stimulated some to live in isolated societies. Religious persecutions abroad caused others looking for a haven of peace and rest to start such communes. And the back-to-nature philosophy of disenchanted urbanites encouraged still others to try this mode of living.

Members of these communes (also called colonies and communistic societies by some writers) shared the work, the wealth that was produced, the food that was served (often in common dining rooms), and the pursuit of a fullness of life that the members hoped for. A few started before 1800, nearly half during 1840 to 1850, and almost none after 1900. Some of the ventures were conspicuously successful and others were short-lived. Only a few exist today, generally on a reorganized basis with modified social, religious, cultural, and economic objectives.

Wisconsin had several such communes. The Wisconsin Phalanx at Ceresco (Ripon, Wisconsin), a Fourierite colony of about 180 persons, lasted six years, 1844-1850, and was dissolved by mutual consent after apparently successful operation. Two other Wisconsin groups were the Christian Social Association of 48 members which started in 1896 and terminated in 1900, and the Spring Farm Association of 10 families, a Fourierite group, operating from 1846-49. The Shakers, Rappites, Zoarites, Amana Society, Icarians, and Harmonists are just a few of the 128 communal societies that once existed in this country.

In retrospect, it appears that these societies were organized largely on a religious basis or sectarian philosophy, were dominated by some authoritarian person, and demanded strict conformity to specific living patterns. Generally, members gave up private property rights, shared the wealth produced by the group, and lived isolated from society. Many of these communes were more closely related to medieval religious orders than to business cooperatives since relatively few were organized to solve social problems of low wages and incomes, high consumer prices, inadequate services, and questionable quality of merchandise. Still the esprit de corps of these groups may have served as stepping stones to business cooperatives.

STATE AND NATIONAL ORGANIZATIONS - COUNCILS, LEAGUES, INSTITUTES, TRADE ASSOCIATIONS

Not all problems of cooperatives are business problems. Some relate to providing information about cooperatives to members, the public, legislators, and others; some to suggesting laws to benefit cooperatives; and some to providing quorums for discussion of mutual issues.

Since many of these issues concern all cooperatives and their solution is beyond the sphere of a single organization, it is logical that state and national associations were established to deal with them. General farm organizations such as the Grange, Farmers' Union, and Farm Bureau devote much attention to issues affecting farmers generally, including also those bearing upon cooperatives. However, the cooperative trade associations, state federations or councils of cooperatives, and educational institutes deal specifically and almost exclusively with problems facing cooperatives.

The National Council of Farmer Cooperatives, Washington, D. C. is an organization of about 100 farmer marketing and purchasing cooperatives plus 33 state associations. Organized in 1929, it is principally interested in federal legislative matters that might affect farmers' associations. Reports of special committees - transportation, legal, tax, research, education, bargaining, etc. - are presented at annual meetings, and policy resolutions are adopted. Member dues support the organization, and a small staff headed by an executive vice-president keeps members informed of current developments and activities.

The Council is a member of the International Federation of Agricultural Producers which has offices in Paris and Washington and publishes "IFAP News" monthly and "World Agriculture" quarterly. IFAP is, in many respects, the voice of the farmer and of his cooperatives in international affairs.

The Cooperative League of the USA was organized in 1916 to promote the interests of consumer cooperatives in the United States. Many kinds of cooperatives - credit, housing, electric, food stores, health, recreation, farm supply, etc. - from all parts of the country belong to the League. Perhaps as many as 75 percent of the members of the cooperatives affiliated with the League are farmers or rural residents. The League maintains headquarters in Washington, D. C. and a branch in Chicago. It does many things for its members - publishes and distributes cooperative literature; provides speakers at annual meetings, conferences, workshops, and clinics; carries on a public relations program; lobbies for or against proposed legislation; and, in general assists cooperatives.

The American Institute of Cooperation was organized in 1925 as a national educational organization sponsored by farmer cooperatives and agricultural leaders. Each year it holds an institute at a Land Grant college during which lectures, panel discussions, symposia, and reports on cooperatives are given. These prepared papers are then published in a proceedings volume called *American Cooperation* These volumes, in many respects, have become the best compendium of information on farmers' cooperatives to be found in the United States.

The Institute does not engage in legislation activity on either the federal or state level, nor does it adopt resolutions and policies for future action. Farmer cooperatives support the Institute voluntarily. Its office is in Washington, D. C. and its staff works closely with educational institutions in putting on seminars, workshops, and educational meetings for members, directors, officers, and managers of cooperatives. Its work with 4-H, FFA, and other youth and teenage organizations has received major emphasis for years.

The National Rural Electric Cooperative Association (NRECA) is a service or trade association of rural electric cooperatives, headquartered in Washington, D. C. It was organized in 1942 to serve its member associations with information, insurance programs, research, and legislative representation. It has provided technicians and engineers to foreign countries interested in developing cooperative electric service. The NRECA has been especially involved in legislative activities since the opponents of rural electric generating and distributing cooperatives have been quite active in their opposition, and since an annual congressional appropriation to the Rural Electric Administration calls for considerable lobbying. This organization is also maintained through the voluntary dues paid by its members.

In addition to the electric cooperative trade association just mentioned, there are other national commodity and service organizations interested in educational, legislative, and informational services for their affiliated members. Cooperatives handling one particular product or providing a specialized service have banded together in trade associations to protect and further the interests of their constituents. Included in

these are: the National Milk Producers' Federation, the National Federation of Grain Cooperatives, and the National Telephone Cooperative Association - each headquartered in Washington, D.C. - and the National Livestock Producers' Association, Chicago, Ill.; and Credit Union National Association (CUNA), Madison, Wisconsin. None of these associations buys or sells, processes, or stores, or in any other way handles farm commodities or renders electric, telephonic, credit, or similar services. Theirs is a trade association service of which lobbying is generally an important part.

State councils (federations or associations) are state-wide trade associations of cooperatives. They are organized to solve mutual problems of their members, to assist cooperatives to become more efficient, to be a public spokesman for cooperatives, to show the public generally that cooperatives are legitimate and constructive institutions in our capitalistic system, and to enhance the interests of the member associations.

For many years, Wisconsin was the only state with two such organizations. However, since 1968, only one organization - the Wisconsin Federation of Cooperatives, Madison, Wisconsin - serves several hundred diversified cooperatives in the state.

Most state councils have similar objectives as service institutions for their affiliates. Yet, they do differ in types of associations admitted to membership, in their budgets and methods of financing their operations, in the size of staff employed, in the programs they sponsor throughout the year, and in their general activity on behalf of and for their members. Most state councils are also members of the National Council of Farmer Cooperatives and of the American Institute of Cooperation. In 1970, there were 39 state councils and 1 in Puerto Rico.

EXTENT OF COOPERATIVE BUSINESS

Few of the many farmer cooperatives set up in the later decades of the past century under the stimulus of the Grange, Farmers' Alliance, and independent groups of farmers survived for more than a few years. In 1913 the United States Department of Agriculture made a survey of farmer cooperatives and reported 3,099 marketing and farm supply associations. This listing, however, was far from complete. In the years following, the numbers grew rapidly to a peak of 12,000 active associations in 1929 after which the number declined to 7,747 in 1968-69.

Membership in marketing and farm supply cooperatives grew from 651,186 reported in 1915 to a peak of 7,731,735 in 1955-56. After that a decline to 6,363,555 in 1968-69 set in. In this latter year, associations averaged somewhat over 800 members. In view of the fact that in 1968-69 there were approximately 2 3/4 million farmers - and not all of these belonged to cooperatives - it is apparent that many farmers belonged to 3, 4, or more associations. While the number of associations dropped 35 percent by 1968-69 from the peak in 1929-30, largely because of mergers of small, local associations into larger units, membership increased more than 100 percent during this same time.

In 1915, farm supply cooperatives had only 9.1 percent of the membership in marketing and farm supply cooperatives - in 1968-69, 50 percent of it. The gross volume of business of both marketing and farm purchasing associations has grown from less than $1 billion in 191[illegible] to $22.7 billion in 1968-69 - 74 percent is done by marketing associations, 25 percent by farm supply cooperatives, and somewhat over 1 percent by related service cooperatives. When intercooperative business is excluded from the gross volume, the net volume of the three types was $17.3 billion divided on a 77, 21, and 2 percent basis between marketing, farm supply, and related service associations. Table 7 shows the number of associations, their membership, and their net volume of business (exclusive of intercooperative transactions) for selected years from 1915 to 1968-69.

Table 7. Number of, Membership, and Business Volume of Farmer Marketing and Supply Associations. [1]

Years	Number of Associations	Estimated Number of Members	Volume of Business
1915	5,424	651,186	$ 635,839,000
1921	7,374	---	1,256,214,000
1930-31	11,950	3,000,000	2,400,000,000
1940-41	10,600	3,400,000	2,280,000,000
1950-51 [2]	10,064	7,091,120	8,147,137,000 [3]
1960-61	9,163	7,202,895	12,409,133,000
1968-69	7,747	6,363,555	17,396,221,000

1. Farmer Cooperative Service Research Report 16, and General Report 128.
2. Data for the years before 1951 are not entirely comparable with those of later years because of revised statistical procedures. Also, data prior to 1951 did not treat related service cooperatives separately from the marketing and farm supply cooperatives as they did in subsequent years. Such related service cooperatives include trucking, warehousing, drying, and similar service organizations but not insurance, financing, electric, DHIA, and other associations.
3. Beginning in 1950-51, the net volume of business if shown — exclusive or intercooperative business.

In addition to marketing and farm supply associations, farmers have also organized many associations in insurance, finance, irrigation, electric and telephone service, artificial breeding, and dairy herd improvement. The number of and membership of these principle types of businesses are shown in Table 8. Since registration of cooperatives is not mandatory in the United States as it is in many foreign countries, the data probably understate the magnitude of cooperative business in this country.

California, Minnesota, Iowa, Illinois, and Wisconsin did the largest volume of cooperative business in 1968-69, accounting for 36 percent of the total marketing and farm supply business. The states with the largest number of members were Minnesota (559,465), Iowa (429,890), Indiana (428,095), Missouri (409,330), Illinois (401,345), and Wisconsin (392,670).

The leading farm products marketed in 1968-69 in the United States were dairy products (34.5 percent of the total dollar value), grains and soybeans and soybean products (19.8 percent), livestock and products (13.8 percent), and fruits and vegetables (12.6 percent) - a grand total of 80.7 percent of the $13.4 billion of sales. Among farm supplies purchased cooperatively, the leading products were feed, petroleum products, fertilizer, sprays and chemicals, and building materials - these accounted for 80.7 percent of $3.6 billion of purchases.

Table 8. Major Types, Number, and Memberships of Farmer Cooperatives.[15]

Type	Year or period	Associations	Estimated memberships or participants
		Number	
Marketing and farm supply:			
Marketing [1]	1968-69	4,773 [2]	3,141,245
Farm supply [1]	1968-69	2,793 [3]	3,189,460
Miscellaneous services [1,4]	1968-69	181 [5]	3[illegible],850
Service:			
Federal land bank associations [6]	June 30, 1970	628	369,279 [7]
Production credit associations [6]	June 30, 1970	446	526,654
Banks for cooperatives [6]	June 30, 1970	13	3,556,000 [8]
Rural credit unions [9]	Jan. 1, 1970	790	275,000
Rural electric cooperatives [10]	Jan. 1, 1970	901 [11]	5,738,961 [12]
Rural telephone cooperatives [10]	Jan. 1, 1970	231	579,241
Farmers' mutual fire insurance companies [9]	Jan. 1, 1970	1,225	[illegible],7[illegible]0,000
Production:			
Mutual irrigation companies [9]	Jan. 1, 1970	7,500	161,000
Dairy herd improvement associations [13]	Jan. 1, 1970	1,267	59,629
Dairy cattle artificial breeding assocations [13]	1969	21	242,100 [14]

1 Farmer Cooperative Service, USDA.
2 When associations marketing farm products but principally engaged in providing some other services are included, the total is 5,400.
3 When associations purchasing farm supplies but principally engaged in providing some other services are included, the total is 6,273.
4 Includes general trucking, storage, grinding, locker plant, and other services.
5 When associations providing miscellaneous services but principally engaged in marketing or farm supply activities are included, the total is 5,345.
6 Farm Credit Administration.
7 Represents the number of Federal Land Bank loans outstanding as of June 30, 1970.
8 Estimated 2,879 cooperative associations were borrowers from Banks for Cooperatives.
9 Farmer Cooperative Service, USDA estimates.
10 Rural Electrification Administration, USDA.
11 Includes associations that are REA repaid borrowers.
12 Includes only memberships of associations financed by REA.
13 Dairy Cattle Research Branch, Agricultural Research Service, USDA.
14 Number of herds serviced by cooperatives.
15 From: "Statistics of Farmer Cooperatives - 1968-69" - FCS Research Report No. 16 - December 1970, U. S. Department of Agriculture, Washington, D. C.

URBAN CONSUMER COOPERATIVES

Cooperatives run by urban consumers conduct only a small proportion of the total cooperative business in the United States with one exception - credit unions. The Department of Commerce in the *U. S. Census of Business* reports that cooperatives do slightly less than 1.5 percent of the total retail trade in the United States. Of this amount, most is done by farm supply cooperatives. A much smaller fraction is done by city cooperative grocery stores, hardware stores, oil and gasoline stations, and other establishments retailing consumer merchandise. Housing cooperatives (of which there were about 2,276 associations in 1968 with 141,000 members) and cooperatives providing rooms, meals, and medical care are nearly all conducted by nonfarmers. However, cooperative telephone companies, insurance associations, electric power cooperatives, building supplies, and petroleum associations often listed as though they were urban consumers' cooperatives are almost entirely restricted to farmer members.

Table 9 shows the number of predominantly urban consumer cooperatives, their approximate membership, and their business volume as of the late 1960's. These data together with that in Table 8 indicate the extent of rural and urban cooperatives in this country on the dates indicated.

Table 9. Numbers, Members, and Volume of Business of Cooperatives with Principally Urban Membership in the United States – About 1969-70.[1]

Kind of Cooperative	Purpose	Number of Associations	Number of Members	Value of Business
Consumer goods	Food and home supplies	430 (stores)	450,000	$500,000,000
Credit Unions[2]	Thrift and credit	23,710	23,000,000	$ 12,509,000 (loans)
				$ 18,487,000 (assets)
Fishing	Marketing, Supply purchasing	79	12,000	N.R.
Group Health Plans	Prepaid health care	200	7,250,000	$300,000.000
Housing	Homes, dwellings	700	200,000	$250,000.000
Insurance (excl. farmers' mutuals)	Financial security	39	15,000,000	$950,000,000 (premiums)
Memorial societies	Last rites	101	300,000	$ 1,300,000 (estimated savings)
Nursery schools	Pre-school child care	1,440	72,000	$ 6,840,000
Students' cooperatives	Room, board, books	400	400,000	$ 29,660,000

1 From "Cooperatives – USA – Facts and Figures, 1969" – The Cooperative League of the USA, Chicago, Illinois. Data for the farmer cooperatives included in the original table are omitted since these are shown in Table 8.

2. Data for March 1971.

In contrast to the relatively small urban consumer cooperative business in the United States, urban consumer cooperatives in most western European countries do an appreciable share of the total volume of retail and wholesale trade, especially in food sales (see Table 5). However, noncooperatives dominate the sales of nonfood items, such as clothing, furniture, appliances, hardware, and the like. The highest proportion of cooperative retail trade occurs in the Scandinavian countries, Great Britain, and Switzerland.

COOPERATIVES IN WISCONSIN

A study by the Wisconsin Department of Agriculture in 1971 revealed that there were 1,828 cooperatives in the state - 890 chartered under the state's cooperative law (Chapter 185); 766 credit unions (Chapter 186); 141 town mutual insurance companies organized under Chapter 202 of the statutes; and 31 production cr dit and federal land bank associations operating under federal charters. These associations (exclusive of the mutual insurance and credit unions) had almost a million members, hired about 12,000 employees, did $1.8 billion of business in 1971, had $500 mil-

lion invested in the organizations, paid $79 million in wages and salaries, $6.5 million in property and income taxes, and showed a net worth of $362 million ("Economics and Geography of Wisconsin Cooperation," Bulletin 617-71, Wisconsin Department of Agriculture, 1972, Madison, Wisconsin.)

These cooperatives are distributed quite widely throughout the state, except in the southeastern counties. The marketing and processing of milk and dairy products and the sale of livestock lead all other products in numbers of associations, membership, and dollars of business. Feed, seed, fertilizer, sprays and chemicals together with petroleum products constituted the principal farm supplies bought cooperatively. Only 18 consumers' general merchandise stores (groceries, dry goods hardware, meats, fuel, health and beauty aids) existed and most of these were in the northern counties.

The record shows a great diversity of cooperative activity in the state. It also reveals that major wholesale marketing and farm supply companies are active in the state. These include Land O'Lakes, Inc.; Ocean Spray Cranberries, Inc.; Associated Milk Producers, Inc.; Central Livestock Association, Inc.; Equity Cooperative Livestock Sales Association; Great Lakes Cooperative Wool Growers' Association; Midland Cooperatives, Inc.; FS Services, Inc.; Farmers' Union Central Exchange; and Fox Cooperatives, Inc..

BENEFITS FROM COOPERATIVES

It is not by accident that about one-fourth of the farm products in the United States are marketed cooperatively, that almost a fourth of the farm supplies are purchased in this manner, and that 1 out of every 10 persons belongs to a credit union. Up to 90 percent of some products are handled cooperatively. Such volumes by cooperatives acting in a highly competitive economy reflect the general satisfaction and favorable attitude of member patrons toward their companies and the apparent soundness, efficiency, and satisfactory performance of the associations.

It is self-evident that cooperatives which year after year provide benefits for their patrons must be well organized, well financed, well managed, well run, and well supported. They must be progressive, changing with the times and flexible and responsive to their members' needs. Many are also pacemakers rather than mere followers in the marketplace - innovators as well as conventional performers. Some, to be sure, have not improved over noncooperative operations.

Benefits to member patrons and to the community as a whole are both tangible and intangible. Tangible benefits may be seen immediately in improved services, better pricing, and reduced costs; whereas it may be some time before the intangible values of organizing become apparent to patrons. In many instances benefits apply not only to member patrons but to nonmembers as well through the competition which the cooperative provides.

Since cooperatives are generally organized in response to an economic need, it is perhaps correct to assume that the greater the need, the greater the possibility of doing good for members. Vice Versa, the less economic need, the less likelihood of material gain over noncooperatives. Consequently, many conditions need to be considered when appraising the possibilities, achievements, and limitations of cooperatives.

What are some of these factors? The list includes the following:

How much competition exists in the marketplace?

How firmly are institutional organizations and practices rooted?

To what extent can individualism be subordinated to groupism? That is, how readily can persons accept the regimen of the group?

How well are members informed about the purposes, organization, principles, and operations of cooperatives and what is their experience with them?

Is there the necessary enabling legislatic permit cooperatives or are there prohibi... against certain types of cooperatives?

Is the economic status of persons conducive to membership or not?

Do government and regulatory bodies favor or are they against cooperatives?

Are the services to be performed highly personalized or more generalized?

Nothing is inherent in a cooperative to make it succeed if it does not have top management, adequate financing, sufficient volume, capable employees, competitive prices or returns, and a membership convinced of its merits. Cooperation is voluntary - its adherents must be won over and not coerced into membership.

BENEFITS TO MEMBERS

Members benefit from sound and prosperous cooperatives by improving their incomes and by obtaining services that were previously either unavailable or available only at high cost. They also get intangible returns such as developing leadership, self-reliance, and confidence in solving problems on a self-help basis. In short, they benefit by elevating their plane of living.

Cooperatives have improved members' income by getting better prices, lowering unit operating costs, strengthening bargaining power, and penetrating marketing channels more deeply. Normal trading profits of the usual middlemen and processors are diverted to the patrons of cooperatives. More direct channels of distribution have often been instituted. About $400 million savings

annually have been added to the incomes of farmers from patronage refunds alone - that from improved prices or lowered costs might easily exceed this figure.

Cooperatives have often helped their patron members get better prices for their products through improved product quality; careful grading, branding, and packaging; and through energetic sales promotion. Likewise, collective action has helped lower the costs of farm supplies and needed services. Supplies, such as fertilizers and feeds, have been prepared to meet the farmers' needs rather than the sellers' profit margin.

Credit services by agencies operated for and by farmers are another way to cut production costs. And mutual fire insurance companies have saved their members millions of dollars annually on premiums. Collectively farmers have a bargaining power which no individual could exert by himself in the marketplace.

Credit unions have taught millions of families thrift and management of family finances and have loaned them money for useful purposes which could not have been borrowed as easily elsewhere. Housing cooperatives have provided apartments and homes at reasonable costs for many thousands of low to medium income urban families.

Besides the tangible benefits, many farmers have also experienced intangible benefits. The experience of thousands of members each year as committee members, directors, and officers has developed leadership qualities in many of them as well as the ability to work with and for others. Cooperatives have encouraged members to rely on themselves to solve economic and social problems instead of on the government. Many members have been educated through their house organs and other media. Quality improvement programs, adoption of new production technology, and a better understanding of modern business methods and of our capitalistic system are a few more of the intangibles many members derive from their organizations.

Cooperatives have provided a feeling of security for some members, particularly producers of perishable products - members know that the associations provide continuing markets from which patrons will not be cut off on short notice. The comfort and satisfaction that comes from rural electric service and from modern telephone service are not measurable in dollars and cents, yet the great majority of farmers in many localities did not experience these until cooperatives provided them. Many urban and rural families owe their better living to their cooperatives. This is not only true here but in many other countries as well.

COMMUNITY WELFARE

Many persons and firms help build the local community as a fine place in which to live, work, educate the family, trade, and retire. The local grocer, the plumber, the attorney down the street, the editor of the local paper, the banker and preacher - each in his own way may be helping to make Hometown, USA a better place to live. So likewise, cooperatives can be and are community builders, extending their contributions to more than just the members.

Agricultural cooperatives help farmers who are not members by improved prices and cost reductions made possible by the competition cooperatives give local traders. Cooperatives frequently exert a different competitive force than that provided by just another middleman. This is due to the emphasis on price, quality, and service in the interest of the patron rather than upon the profit interest of the middleman. As a result, in a number of places and in some industries, cooperatives have been pacesetters with their products, services, and prices from which members and nonmembers alike have benefited.

Savings of cooperatives declared as patronage refunds are disbursed among many persons and not concentrated in the hands of a few as profits of noncooperative businesses generally are. In addition, such refunds are kept and spent in the community.

Electric cooperatives have not only made rural living far more pleasant and made electric power available for many rural industries and businesses but have built a market for electrical appliances that did not previously exist - a $1 billion market annually.

As business enterprises, many cooperatives hire the most employees, have the largest payrolls, and pay the most taxes in the rural towns where they are located. It is estimated that cooperatives have put business ownership in the hands of one-third of the American families. Such ownership adds stability to communities, diffuses wealth and investments among its citizens, and brings about a greater understanding of the American free enterprise system.

It is not uncommon for cooperatives in one field to become the nucleus for cooperatives in other fields, generally to the advantage of the community. Thus, a supply cooperative may generate interest in a marketing cooperative, a PCA, a processing plant, a rural telephone company, and in other jointly owned projects. For example, Williston, North Dakota, population 12,000 (1970), has 11 cooperatives with payrolls totaling more than $400,000 and savings for member patrons exceed-

ing $400,000 annually. The county of which it is the county seat has 23 cooperatives.

It is difficult to measure in dollars and cents the benefits of farmer cooperatives, since these benefits fail to reflect the intangible effects of improved bargaining power, keener competition, and concerted efforts to develop new markets. However, it is believed that these collective efforts of farmers have increased net farm incomes over the years. Patronage dividends, large as the total for all cooperatives may be, are not a full measure of the cooperatives' financial benefits for patrons. Cooperatives have reduced margins in marketing, have increased producers' bargaining power, and have been a force for correcting market imperfections. They have likewise benefited the public generally and, in some instances, foreign countries as well.

LIMITATIONS OF MARKETING, PURCHASING, AND SERVICE COOPERATIVES

The limitations of marketing, purchasing, and service cooperatives are similar to those confronting other businesses operating in the same fields. They are not peculiar to cooperatives. However, some are discussed here because members of cooperatives sometimes expect miracles from their association; which they do not expect from private business. It is well to point out the impossibility of meeting some of the demands made upon cooperatives.

In all-too many instances, farmers support a cooperative on the grounds that the association will be able to do such things as control prices, secure production costs, or eliminate the middleman. These aims formerly attracted the support of large numbers of farmers.

Experience demonstrates conclusively that successful cooperation is not founded on these accomplishments. Members who join with such objectives in mind are likely to become dissatisfied and lose faith in the enterprise. In organizing an association, it is better to promise too little than too much. An informed membership, as a general rule, is modest in its demands upon the association. An uninformed membership may expect the impossible.

PRICE CONTROL

Few cooperatives have enough control over the supply of farm products to give them price-fixing power. Fewer still have any control over production to regulate supply. What to produce and how much to produce are still the prerogatives of each farmer, although this is somewhat modified today under the agricultural price-support programs. Even though a cooperative could command a controlling portion of the available supply of a product and set high prices, the effect might be short-lived since the attractive prices would induce members, as well as nonmembers, to increase their production. Higher prices might also stimulate the use of substitute products. It is one thing to fix a price on a product and quite another to get consumers to buy the product at that price. The prices consumers will pay depend on consumer incomes, the prices of similar but competing products, and upon the availability and prices of substitutes.

PRODUCTION COSTS

For generations, farmers have hoped to receive prices sufficient to cover the cost of production. This is a legitimate expectation. Yet the problem is not one that can be solved successfully by cooperative marketing organizations. Cooperatives may assist in securing greater returns to farmers, but they cannot guarantee that these returns will equal the production costs of all their members.

The cost of producing milk in Wisconsin may easily range from $3.50 to $7.50 per 100 pounds. If the price were set on the basis of the average (approximately $4.90), then some may lose money. If it were set higher, say at a price that would cover the cost of all producers, production would probably increase to such an extent that the added supply would depress the market. Hence, a price based on cost of production, like any other price set above supply and demand levels, cannot be maintained successfully without machinery to control production.

A fixed cost-of-production price, like any other fixed price, must take into account the willingness of the consumer to buy. For instance, it may cost a majority of Wisconsin dairymen $4.90 per 100 pounds to produce milk. But the consumer may not be willing at times to pay this price for enough milk to keep all the Wisconsin dairymen in business. Hence the price would have to be lowered or less milk marketed.

Cost of production is not an infallible index to value. The value of an article or commodity depends just as much on the amount the consumer is willing to pay for it as it does on the cost to produce the article. One may manufacture jumping-jacks at the cost of $1.00, but if buyers are not willing to purchase them at any price, the jumping-jack's value is zero.

The ability to secure a cost-of-production price depends on the ability to regulate production and to induce consumers to buy at the price set. Cooperatives do not control either of these essentials.

ELIMINATION OF THE MIDDLEMAN

This plea is generally based on the assumption that the profits of private dealers and handlers of farm products are sufficient to support and justify an association. While cooperatives may save part of the profit margin going to private traders, most successful marketing associations owe their success to their ability to perform services more efficiently than the private dealer; to lower operating costs by handling larger volumes of products; and to improve the quality of products offered for sale.

The marketing of farm products requires the performance of certain tasks regardless of who performs them - a private agency or a cooperative one. Associations may eliminate some middlemen by integration. Retail chain stores often buy direct from producers and manufacturers and sell to the final consumer, thus performing the services of the assembler, broker, commission merchant, wholesaler, and retailer.

Cooperative marketing associations must not only discharge these functions at costs which compare favorably with the charges of others for the same service, but must do more and better. The elimination of middlemen is not the important consideration. A cooperative is not set up to "get" anyone, but to serve. Most important is to do the job better than it was being done before. The cooperative must do for its members all that private initiative did for them, plus. Emphasis should be placed on the plus.

CONTROL OF AGRICULTURAL SURPLUSES

It is sometimes suggested that farmers should do as manufacturers do - produce only the quantity that can be sold at an acceptable price. It is not clear that manufacturers are able to do this. Few, if any, control the total supply as industry-wide inventory accumulations and business recessions indicate. But farmers through their cooperatives have never been able to exert much influence on quantities produced. Farming is highly competitive. Most staples are produced over wide areas by a large number of totally independent operators.

Moreover, the supply of any particular product for any one year is quite beyond the farmers' control because of the hazards of weather, disease, and insect pests. It is true that some cooperatives handling milk for city markets do influence milk production in limited areas. That is, through their payment plans, they encourage farmers to produce more milk in winter than would ordinarily be produced, and less milk in summer, so that supplies fluctuate less throughout the year. In this manner, supplies are made to correspond more closely with consumer demands, but this is not easily possible for most other farm products.

Since cooperatives cannot control product volume, and since volumes offered for sale influence prices, it is not reasonable to expect that cooperatives can guarantee patrons the equivalent of parity prices (farm prices which give the farmer the same purchasing power that he averaged during each year of a base period). Even the government with its vast resources has not been able to do this at all times.

In the foregoing paragraphs it has been pointed out that marketing cooperatives cannot control agricultural production - not even that of their own members; that they cannot fix prices arbitrarily high and expect to sell all of their supplies or meet competition; and that they cannot guarantee that the prices they are able to get will cover the production costs of their members. However, through skillful merchandising, product differentiation, quality control, and deep market penetration, the associations may get top market prices and possibly also premiums thus enlarging returns to producers.

OTHER LIMITATIONS

Cooperatives also have some other limitations, obligations, and extra marketing expenses that noncooperatives do not have. These bear upon the performance of cooperatives and how well they compare with competitors. Marketing cooperatives generally must handle *all* the products its members supply whereas dealers are under no such compulsion. On a declining, sluggish market with inventory stocks accumulating, the cooperative runs the risk of unfavorable price comparisons and higher operating costs.

Cooperatives must keep many records - all purchases and sales need to be recorded and tallied if patronage refunds are to be distributed properly. Also, the very act of computing patronage refunds, writing checks for and distributing the refunds, involves further costs which a non-

cooperative does not face. Such costs in a large company are sizeable.

Many local cooperatives are dominated largely by conservative people, and therefore, are generally market-followers rather than market leaders. Oftentimes, local cooperatives are organized by people with low incomes. These people and their elected representatives on the boards of directors are generally cautious, often skeptical, and frequently slow to try new ideas, new techniques, new ways of doing things, and to spend their members' hard-earned dollars.

The semipublic character of cooperatives makes them particularly vulnerable to criticism and attack by competitors and enemies. Detailed financial information, valuable as it is to keep members properly informed, may also lead to internal bickering and hard feelings among members. Noncooperatives are under no obligation to reveal their financial affairs to their customers or to the public and, consequently, do not do so.

Cooperatives often provide services to their members which private firms generally do not face, such as cashing checks, publishing monthly house organs, printing annual reports, holding annual meetings, and providing tours through their plants for members, students, and others. These services add to their costs. (Some noncooperative meat packing plants, breweries, and food processing plants also arrange plant tours; and some firms cash checks, get out a monthly magazine for their stockholders, and put out fancy annual reports - but the number that do this compared to the number of cooperatives which do not is very small indeed.)

It is also apparent that cooperatives largely depend on member financing for their permanent equity capital and cannot tap the public for investor's funds as a standard corporation can. However, the investing public can provide *working* capital by buying bonds through the fiscal agent maintained by the land banks, intermediate credit banks, and Banks for Cooperatives - but shares of common and preferred stock are not sold to the public through this agent nor on the stock exchanges.

Cooperatives must likewise look primarily to members for their business and can rely much less on business from nonmembers. This captive market is, essentially, a handicap if it is small; a blessing if it is large.

Since managers are quite naturally interested in their positions, salaries, and continued employment - possibly even more than in the welfare of member patrons - some cooperatives become management-oriented instead of member-oriented as they should be. Opposition to mergers and consolidations, especially among local companies sometimes reflects this management attitude.

Another task confronting cooperatives which standard corporations do not have is to establish genuine membership interest and responsibility. Some members are indifferent, lackadaisical, uninterested, and opportunistic as membership relations studies show. To keep members interested not only as customers but as owners of their own businesses involves meetings, publications, house organs, field service - all extra items of cost.

Cooperatives face the further fact that they cannot retain the full benefits of cooperative activity for their member patrons only - nonmembers share in more realistic pricing, reduced margins, and enlarged services as a result of the competition given by the cooperative. This is good from the community's standpoint. However, it disturbs some cooperatives when it adversely affects interest in membership and patronage.

These remarks do not mean to suggest that the special problems and extra costs cooperatives face are insurmountable. In fact, some of these costs are directly related to improved services and great satisfaction for patrons - benefits of an intangible character.

GLOSSARY

(Words and terms commonly used in cooperative writing.)

acquisition - one firm purchasing another; a type of merger.

advances - partial payments made to patrons of marketing associations upon receipt of their products before the products have been sold and the final settlement price is determined.

allocated capital book credits - retained patronage refunds and/or per unit retains for capital purposes for which notification of allotment is made to the patrons.

antitrust laws - laws declaring trusts and combinations in restraint of trade illegal (both state and federal laws).

articles of incorporation - a legal document filed with the Secretary of State or Commissioner of Corporations showing the purpose, capitalization, address, and names of the incorporators of a company.

asset - that which is owned, such as property, money, goodwill.

association - an organization of people with a common purpose united in a formal structure.

audit - an examination and verification of the records and financial accounts. An unqualified audit is an audit prepared by a qualified accountant or auditor using generally acceptable accounting procedures, which audit he reports to be accurate without reservation as to the balance sheet and operating statement.

balance sheet - a statement showing the assets, liabilities, and net worth (or owner equity) of a business on a specified date, usually the end of the year.

Bank for Cooperatives - a bank owned and operated by farmer cooperatives, subject to federal control, which makes loans to farmer cooperatives. There are 12 regional and 1 central bank.

bargaining cooperative - a cooperative whose sole or principal function is to bargain for terms of sale. It does not handle the actual products as an operating cooperative does.

Bingham Cooperative Marketing Act - Kentucky's cooperative marketing act enacted in 1922 and named after Judge Robert W. Bingham, the unmistakable leader of cooperative marketing among burly tobacco growers. This act incorporated almost entirely the draft of a cooperative law by Aaron Sapiro and was called "the standard cooperative marketing act" because of its adoption by many states.

blue-sky laws - laws that regulate the issuance and sale of securities by corporations. In the absence of specific statutory exemption, the securities issued by cooperatives would be subject to the blue-sky laws.

book value of stock - refers to the dollar value of common stock certificates. It equals the appraised value of all assets of a business less liabilities and value of preferred stock divided by the number of shares of stock outstanding.

bond - a certificate representing indebtedness of the issuer and bearing a fixed maturity date as well as fixed interest.

broker - an agent-middleman who receives a fee (brokerage) for his selling or purchasing service. He does not physically handle the product.

bylaw - a standing rule, not included in the constitution or articles of incorporation, which specified operational practice and policy.

capital - money, or dollar value of property, used in a business whether supplied by owners and/or borrowed.

capital stock - book value of the invested money in a company represented by the total shares of stock in a corporation including those fully as well as partially paid for and those unissued.

Capper-Volstead Act - the 1922 federal law legalizing farmers' marketing associations engaged

in interstate and foreign commerce. It is sometimes referred to as the magna charta of farmers' cooperatives in this country.

centralized association - an organization of members residing over a large geographical area, such as a state or region, as contrasted with a local association whose members live in a relatively small area about a trading center. Producer members hold membership directly in the central association.

certificate - a paper which certifies the condition, status, obligation, rights, etc. of the holder of the paper.

certificate of membership - sets forth the rights, privileges, and conditions of membership in a nonstock cooperative. It is given to the member when he pays his membership fee.

certificate of equity, of investment, revolving fund certificate - usually a certificate without a maturity date issued as evidence of retained patronage refunds or per unit retains. These retained funds legally constitute an investment in the capital of the cooperative and, therefore, are part of the association's net worth.

certificates of indebtedness - are also issued as evidences of deferred patronage refunds or per unit retains but generally have a redemption, maturity, or due date and are considered loans to the cooperative. These, therefore, legally constitute a liability of the firm.

charter - the articles of incorporation under which a corporation is legally organized. It consists of the powers, rights, and liabilities of a corporation granted to the incorporators. In brief, it is the authority to proceed as a corporation subject to the constitution and laws of the state where the incorporation took place.

Christian Socialists - a group of about 70 clergymen, lawyers, and others who became greatly interested in social, commercial, and economic reforms during 1848-1854 in England. They were largely responsible for the enactment of the first cooperative law in any country (the Industrial and Provident Societies Act, 1852) as well as the formation of several short-lived cooperative associations.

Clayton Act - a federal law passed in 1914 to amend the Sherman Antitrust Act. Among other things, it legalized the organization of agricultural or horticultural associations instituted for mutual help and not having capital stock nor conducted for profit.

common stock - ownership capital in a corporation divided into shares or stock certificates which carry voting rights, unless otherwise indicated, and which are eligible to receive dividends. There is no due date on such stock and it carries all the risks associated with the investment. Sometimes common stock is divided into Class A common stock which has voting rights and Class B common stock which does not.

conglomerate firm - a business firm which combines different and dissimilar enterprises within a single company. The products are completely dissimilar, are sold in different markets, pass through different marketing channels, and are not directly competitive. Example, a firm that has acquired an air line, a meat packing firm, and an electronics company all under one central control and management.

consolidation - a merger of two or more companies in which, for example, companies A, B, and C are liquidated and a new company, D, is organized to replace the first three

consumer cooperative - a purchasing association which sells primarily consumption goods - food, clothing, fuel, household goods, furniture, etc. It may also provide services for consumers. Both urban and rural people may be members.

contract, agency - a marketing contract under which the cooperative does not take title to products delivered by members to the association but handles them on an agency basis.

contract, marketing - a legal agreement between the farmer and his cooperative under which the farmer agrees to market his salable products mentioned in the contract through the association, and the association agrees to market the products for the farmer. A local association may also contract to market its products through a central marketing cooperative.

contract, purchase and sale - a marketing contract under which the cooperative purchases the products from the member upon delivery to the association, takes title to the products, and pays as the purchase price the resale price less authorized deductions.

cooperative - a business voluntarily owned and controlled by its member patrons and operated for them and by them on a nonprofit or cost

basis. It is an association with an economic objective owned and run by the people who use it and operated for their mutual benefit.

corporation - a legal entity created under the corporation laws of a state (or sometimes under federal law) whose powers, liabilities, and rights are separate and distinct from those of the individuals constituting the corporate body.

credit-open line - a maximum amount of credit extended to a borrower, with or without collateral, for a given time, usually a year. The borrower may use none or any amount of the credit up to the maximum agreed upon as he sees fit and pays interest only on the amount actually borrowed.

credit union - a cooperative organized to promote thrift and savings among its members, to create a source of loanable funds for useful purposes, and to educate its members in the wise use of money; a thrift and loan association.

CUNA - a national organization of credit unions with its headquarters in Madison, Wisconsin (formerly called Credit Union National Association).

damages (liquidated) - a payment made to the cooperative by a member who violated his marketing contract. Such payment for defection, generally based on the value of the product in question, is to reimburse the association for losses sustained as a result of the nondelivery of products. Wisconsin cooperative law specifies a maximum liquidated damage of 30 percent.

debentures - certificates of indebtedness of a company backed by promise to pay and the general credit of the firm rather than by collateral property.

delinquent loan - an unpaid loan that is more than 30 days beyond the due date.

director - one of several persons elected by the members to govern or control the affairs of the cooperative.

dividend - a sum of money paid on investments to shareholders (common and preferred stockholders) of a corporation out of earnings.

equity - the ownership interest of members or stockholders of a company as distinguished from that of bond holders or lenders; investment rights in a company; the total assets less the total liabilities.

exempt cooperative - a farmers' cooperative which is not required to pay federal income taxes upon satisfactorily meeting the provisions of the tax law, the regulations thereunder, and the restrictive requirements of the Internal Revenue Service.

Farm Credit Administration - an agency of the federal government created in 1933 to supervise the farm credit system in the United States which includes the federal land banks and the local federal land bank associations, the Intermediate Credit Banks and the production credit associations, and the Banks for Cooperatives.

farm supply cooperative - a purchasing cooperative through which its patrons obtain farm supplies such as feed, seed, fertilizer, gasoline, chemicals, appliances, and other production goods.

federal intermediate credit bank - one of 12 regional banks which discounts farmers' notes largely to production credit associations (PCA's) and in lesser volume to other agricultural financing institutions.

federal land bank - one of 12 regional banks owned by farmers which discount mortgage notes of local federal land bank associations.

federal land bank association - (FLBA) an association of farmers from which money is borrowed on a long-term basis for purchasing land and other real-estate (formerly called national farm loan associations, NFLA).

federation - an association of local cooperatives in which the local associations elect a board of directors to govern the central association with the locals retaining their autonomous character. Farmers are members of locals and locals (or regionals) are members of the central association.

gross margin - the difference between the selling price and buying price, generally indicated as a percentage of the selling price.

incorporating - the act of setting up a corporation by filing incorporation papers with the Secretary of State or Commissioner of Corporations for his approval or sanction.

injunction (related to marketing contracts) - a court order obtained by an association to enjoin a member or a third party from further violating a marketing contract. Such injunction may be against third parties interfering with delivery of products to the cooperative and/or

against member contract signers from further defection of the contract.

integration - the act of bringing two or more like units (such as retail stores) or two or more successive bargaining units (such as processor, wholesaler, and retail store) under one central control and management; bringing two or more units into a whole.

integration, horizontal - the act of combining two or more like production units or marketing agencies under one central control and management, as for example, two or more retail stores.

integration, vertical - successive bargaining units in the marketing channel brought under one central control and management. Example, wholesale and retail units owned and operated by one firm.

interest - payment for the use of borrowed money.

King, Dr. William - English cooperator; the "Father of Distributive Cooperation"; advocate of consumer cooperatives; author of *The Co-operator* in 1828-1830. (1786 - 1865)

liabilities - amounts owed by a business to its creditors, either short- or long-term - also designated as current liabilities (payable within a year) and fixed liabilities (payable after a year).

limited liability - in a corporation, the stockholder as an investor is liable for the debts of the corporation only to the extent of the value of the shares he owns.

loan - generally a sum of money lent at interest to a borrower. (Other physical objects may also be lent.)

member - each of the persons composing an association. In a capital stock association a person must have purchased at least one share of common voting stock to fully qualify as a member. In a nonstock or membership association, he must pay a membership fee.

membership agreement - an agreement between a person and a cooperative under which the person agrees to become a member of a cooperative (sometimes confused with a marketing contract).

membership certificate - (see certificate, membership.)

membership fee or membership capital - the amount or fee paid by a member for membership in a nonstock association or in an unincorporated cooperative.

merger - two or more companies brought together as one in which the acquiring company continues but the acquired one is liquidated. (See acquisition, consolidation.)

middleman - a business firm which physically transfers and exchanges title to products in their passage through the marketing channel from producer to ultimate consumer.

net farm income - total sales receipts of farm products minus production costs.

net margin - gross margin minus the operating expenses; same as net earnings, profit, net revenue, or net savings from business operations.

net working capital - total current assets minus total current liabilities.

net worth - owners' equity in a business firm. It is the excess of the value of assets over liabilities.

nonexempt cooperative - a cooperative which does not qualify for exemption from paying federal income taxes.

nonprofit association - a cooperative association which is not organized and operated to profit at the expense of its patrons. It is nonprofit because the net savings or "profits" are not retained by the association per se but must be distributed to the patrons on a patronage basis.

nonstock cooperative - a membership organization formed without capital stock.

open membership - an unrestricted membership policy of a cooperative; a very liberal policy with few restrictions as to admission of members.

operating statement - an itemization of business income and expenses for a given period of time, usually a year.

Owen, Robert - an early English advocate and enthusiast for cooperation among workingmen, sometimes called the "Father of Cooperation." (1771-1858). He suggested ownership of land, homes, and factories by the workers.

par value (of stock) - the dollar value of a share of common or preferred stock which is stated on the stock certificate. This value may be equal to, greater, or less than its **market value** which represents the amount for which the stock can actually be sold.

parity price - that price which would give farm commodities the equivalent purchasing power over articles and services as in an earlier base period. The base period for many agricultural products was the five years, August 1909 to July 1914.

partnership - two or more persons jointly carrying on a business without being incorporated. Each is fully responsible for the debts, commitments, and obligations incurred by any one of the partners. In a "limited partnership" the obligations of the partners vary as prearranged.

past due loan - a loan which has not been paid on the due date.

patron - one who trades at or uses the service of a cooperative; a customer.

patronage refund - net savings (or net earnings, net margin, or net revenue) returned to patrons or allocated to them in proportion to the volume of business done with the cooperative or usage made of the cooperative's services; also spoken of as patronage dividends.

patronage refunds deferred - patronage refunds which are not paid in cash immediately following the year in which they were earned but are invested in the cooperative and to be paid at some later date.

PCA (production credit association) - an association owned and operated by farmers to provide loans for agricultural production, usually for a short to intermediate time.

Plunkett, Sir Horace - outstanding Irish leader and advocate of farmers' processing and marketing associations; sponsor of the Irish Agricultural Organization Society and founder of the Horace Plunkett Foundation, an educational agency. (1854-1932.)

pooling - an averaging process; a method of handling products whereby lots of the same product from different producers are combined by grade and contributors receive average net payments. (Each grower's products lose their identity and are treated collectively as one huge lot by grades. All producers receive the same average price for the specific grade.) Products, sales receipts, expenses, and net earnings are pooled.

preferred stock - a stock which has a preference with respect to dividends, and, in the event of bankruptcy, to assets also. Such stock is an investment in the cooperative, carries no voting rights as common voting stock does, and earns a fixed dividend payment.

proxy voting - a written authorization empowering another person to vote for and act on behalf of a member. Such proxy voting is prohibited by Wisconsin cooperative law and by laws in many states.

purchasing cooperative - a cooperative through which both production supplies (seed, feed, fertilizer, chemicals, farm appliances, etc.) and consumption goods (groceries, clothing, fuel, home appliances, etc.) are acquired.

quorum - the number of members required to be present in person to transact business legally. Wisconsin Cooperative Law states that this must be 10 percent of the first 100 members plus 5 percent of additional members (but not over 50 nor less than 5 members) or a majority of all members, whichever is smaller, unless the bylaws fix a larger number.

Raiffeisen, Friedrich Wilhelm - "father of the credit union movement"; German advocate and organizer of credit societies; world renowned cooperator. (1818-1888.)

REA (rural electrification administration) - a governmental agency which makes loans chiefly to rural electric cooperatives. Also refers to a local rural electric association which distributes electricity in rural areas.

REC (rural electric cooperative) - a local cooperative which distributes electricity in rural areas to farmers and others alike.

regional cooperative - a cooperative serving members in a relatively large geographical area, usually involving a fairly large section of a state or even several states as distinguished from local and national cooperatives. Most federated and centralized associations serve a membership in a regional area.

reserve - amount set aside from net savings to be kept in the business permanently. **Unallocated reserves** become the property of the firm and no pro rata allocation is made to patrons or members. An **allocated reserve** consists of patronage refunds retained in the business for indefinite periods, that are allocated on a pro rata basis to patrons, and evidenced either by certificates or allocated capital book credits to the patrons. Reserves may be set aside for different purposes such as valuation reserves

for depreciation and obsolescence, contingency reserves for bad debts, and capital reserves for business expansion.

retain (per unit) - funds withheld from patrons to build up capital under a revolving capital plan of financing (also called capital retains).

revolving capital plan of financing - a financing plan in which capital funds are obtained from member patrons through capital retains or retention of patronage refunds, are used for a time by the cooperative and later repaid to the member patrons; a plan for rotating all or part of the capital funds of an association.

Rochdalians - twenty-eight persons of Rochdale, England who in 1844 organized a cooperative grocery store that was highly successful. Their fame rests on the fact that they followed practices of organization and operation which were so successful that they are known to this day as the Rochdalian principles of cooperation.

Sapiro, Aaron - American cooperative evangelist; advocate of centralized commodity-marketing associations; drafter of a cooperative marketing act enacted in part or wholly in many states (1884-1959).

Schulze-Delitzsch, Herman (1808-1883) - organizer of urban credit societies or people's banks in Germany which served principally small merchants, craftsmen, artisans, and tradespeople; a contemporary of Raiffeisen who was swayed largely by humanitarian principles whereas Schulze-Delitzsch was chiefly concerned about economic considerations in his organization and operation of the people's banks.

service cooperative - a cooperative that deals solely or primarily in the rendering of services as distinguished from handling commodities (services such as housing, financing, insurance, artificial breeding, electricity, and telephone service).

Sherman Antitrust Act - a federal law enacted in 1890 that declared illegal every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce.

sight draft or bill of exchange - an unconditional order in writing addressed by one person called the *drawer* to another called the *drawee* requiring him to pay on demand or on sight to a third person called the *payee* a certain sum in money. A *time* or *long* bill of exchange is payable at a future date arranged by the drawer and drawee.

sole proprietorship - a business or firm owned by one individual.

specific performance - a court order compelling a contract signer to perform his contract as he had agreed to when he signed it. Many state laws entitle an association "to an injunction to prevent the further breach of the contract and to a decree of specific performance thereof." The other remedy for breach of contract, namely liquidated damages, is also included in the laws.

stock or share - a certificate showing investment in the cooperative as well as ownership rights.

Warbasse, Dr. James Peter - founder of the Cooperative League of the USA; strong advocate of consumers' cooperatives; author of several books on cooperation including his classic *Cooperative Democracy* (1866-1957).

wholesaler - a merchant middleman operating between the processor (or manufacturer) from whom he buys and retailers to whom he sells. He frequently buys carload lots or full truckload lots.

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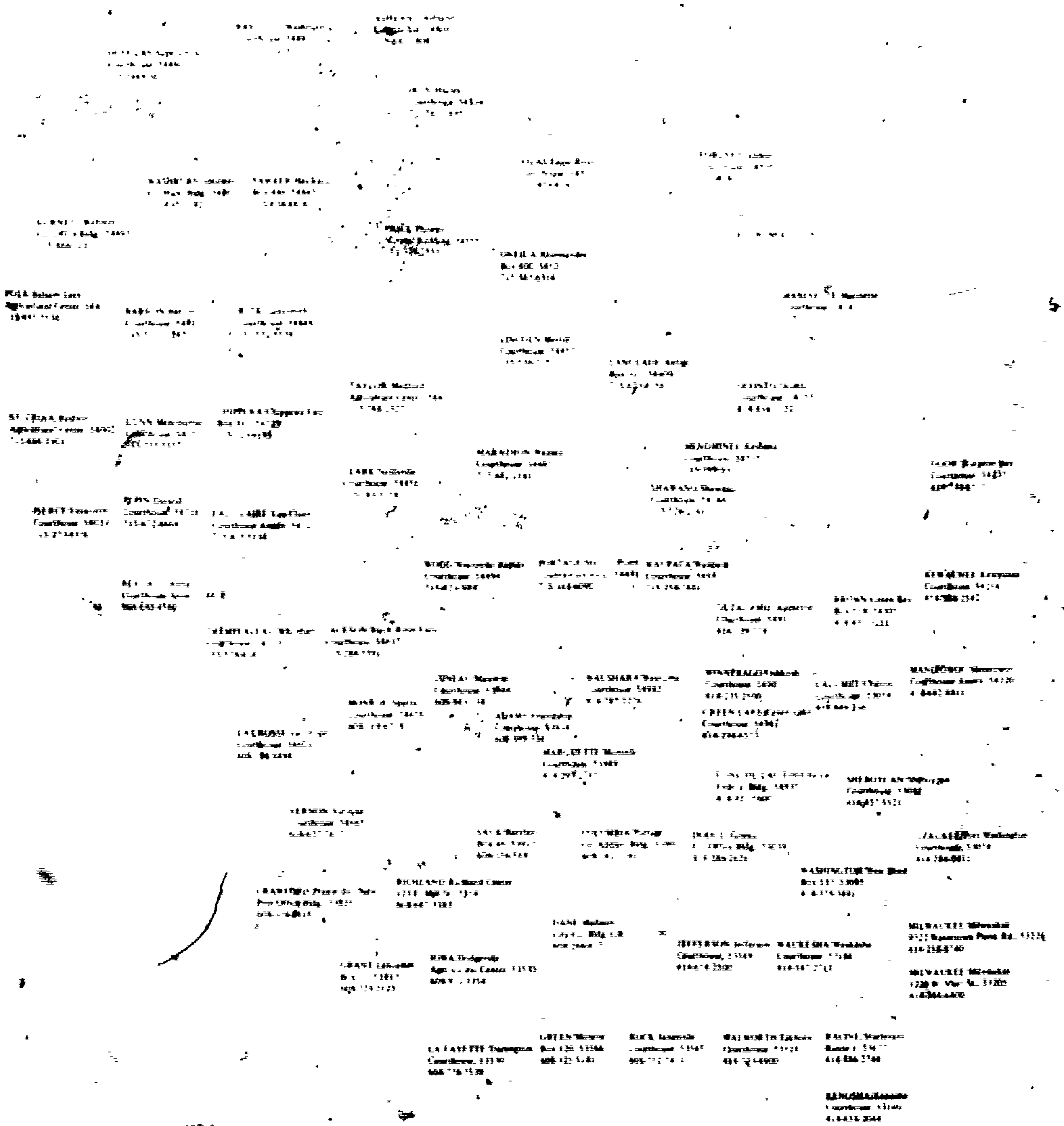
COUNTY EXTENSION OFFICES



Graphic Design
Josef Lombardi

COOPERATIVE EXTENSION PROGRAMS
UWEX University of Wisconsin–Extension
University of Wisconsin–Madison